**KPMG LLP**
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10 South Broadway
St. Louis, MO 63102-1761

## Independent Auditors' Report

To the Honorable Mayor and
Members of the Board of Aldermen
City of St. Louis, Missouri:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of St. Louis, Missouri, as of and for the year ended June 30, 2004, which collectively comprise the City of St. Louis, Missouri's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of St. Louis, Missouri's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the pension trust funds, St. Louis Development Corporation, and the Harry S. Truman Restorative Center. The assets and additions of the pension trust funds represent 92% and 100% of the assets and additions, respectively, of the aggregate remaining fund information. The assets of St. Louis Development Corporation and Harry S. Truman Restorative Center represent 59% and 1%, respectively, of the assets of the aggregate discretely presented component units. The revenues of St. Louis Development Corporation and Harry S. Truman Restorative Center represent 14% and 1%, respectively, of the revenues of the aggregate discretely presented component units. The financial statements of the pension trust funds, St. Louis Development Corporation, and Harry S. Truman Restorative Center were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for those funds and discretely presented component units, is based on the reports of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The financial statements of the pension trust funds and Harry S. Truman Restorative Center discretely presented component unit were not audited in accordance with *Government Auditing Standards*. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit, and the reports of other auditors, provides a reasonable basis for our opinions.

As discussed in note 23d to the financial statements, on November 1, 2003, the major air carrier providing air passenger service at Lambert-St. Louis International Airport, an enterprise fund of the City of St. Louis, Missouri, significantly reduced its operations at Lambert-St. Louis International Airport.

In our opinion, based upon our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of

St. Louis, Missouri, as of June 30, 2004, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards,* we have also issued our report dated February 14, 2005, on our consideration of the City of St. Louis, Missouri's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 3 through 19, the Budgetary Comparison Information on pages 123 through 128, and the Firemen's Retirement System of St. Louis and Employees' Retirement System of the City of St. Louis Information on page 129 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of St. Louis, Missouri's basic financial statements. The combining and individual fund financial statements and schedules – other supplementary information is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information, except for that portion marked "unaudited", on which we express no opinion, has been subjected to the auditing procedures applied by us and the other auditors, in the audit of the basic financial statements and, in our opinion, based on our audit and the reports of other auditors, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory section and statistical section have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

KPMG LLP

St. Louis, Missouri
February 14, 2005

# CITY OF ST. LOUIS
# MANAGEMENT'S DISCUSSION AND ANALYSIS
# JUNE 30, 2004

This section of the City of St. Louis's (the City) Comprehensive Annual Financial Report presents an easily readable analysis of the City's financial activities based on currently known facts, decisions, and conditions. The following discussion and analysis of the City's financial performance has been prepared by management to provide an overview of the basic financial statements of the City of St. Louis for the fiscal years ended June 30, 2004 and 2003. For a comprehensive understanding of the financial statements, please review the transmittal letter at the front of this report along with the City's financial statements, including the footnotes that follow the Management's Discussion and Analysis.

**FINANCIAL HIGHLIGHTS (excluding discretely presented component units)**

- On a government-wide basis the City's total assets exceeded its liabilities for the most recent fiscal year by $1.5 billion.

- Governmental activities and business-type activities had net assets of $381.9 million and $1.1 billion, respectively.

- On a government-wide basis during the year, the City's total expenses were $11.0 million less than the $887.0 million revenue generated in charges for services, grants, taxes, and other revenues.

- The cost of the City's governmental activities was $672.6 million in fiscal year 2004.

- As of June 30, 2004, the City's governmental funds reported combined ending fund balances of $205.7 million. Of this amount, $85.5 million is unreserved fund balance and available for spending at the City's discretion.

- The unreserved fund balance for the general fund was $44.8 million or 11.2% of total general fund expenditures.

- The general fund revenues were lower than original budget estimates.

- In fiscal year 2004, the City issued $70.3 million in long-term debt to finance projects and refund debt. There was a net increase of $25.7 million or 4.3% in bond debt during the current fiscal year.

- Total actual resources available in the General Fund were $9.1 million less than originally estimated and appropriated. However, management limited general fund spending primarily through a decrease in transfers from the general fund and a reduction in planned departmental expenditures.

- Net pension obligations increased by $19.2 million and net pension asset decreased by $2.4 million due to the difference between the actuarial determined pension contributions to the three pension funds and the amounts actually contributed.

- Tax increment financing (TIF) debt increased government-wide liabilities in the amount of $4.9 million. There is no related asset for TIF debt.

## OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements include three components: 1*) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements.*

### Government-wide Financial Statements

The first set of financial statements is the government-wide statements which report information about the City as a whole using accounting methods similar to those used by private-sector companies. The two government-wide statements, **Statement of Net Assets** and **Statement of Activities**, report the City's net assets and how they have changed. In the government-wide statements, a distinction is made between governmental-type activities and business-type activities. Governmental-type activities are those normally associated with the operation of a government such as, public safety, parks, and streets. Business-type activities are those activities of the government that are designed to be self-supporting.

The **Statement of Net Assets** presents information on all of the City's assets and liabilities, with the difference between the two reported as net assets. Increases and decreases in net assets may serve as a useful indicator of whether or not the financial position of the City is improving or deteriorating. The statement of net assets also provides information on unrestricted and restricted net assets and net assets invested in capital assets, net of related debt.

The **Statement of Activities** present information showing how the City's net assets changed during the most recent fiscal year. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of the timing of related cash flows.

The statement of activities presents the various functions of the City and the degree to which they are supported by charges for services, federal and state grants and contributions, tax revenues, and investment income.

The governmental activities of the City include general government, convention and tourism, parks and recreation, judicial, streets, public safety (fire, police, other), health and welfare, public service, community development as well as interest and fiscal charges. The business-type activities of the City include an airport, water division, and parking facilities.

The government-wide financial statements include not only the City itself (known as the primary government), but also a legally separate redevelopment agency, a legally separate police department for which the City is financially accountable, a not-for-profit skilled nursing facility supported by the City, and a legally separate corporation that owns and leases the downtown steam loop. Financial information for these component units is reported separately from the financial information presented for the primary government.

The government-wide financial statements also include blended component units within the primary government because of their governance. Included within the governmental activities of the government-wide financial statements are the operations of the Public Facilities Protection Corporation (PFPC), St. Louis Municipal Finance Corporation, St. Louis Municipal Finance Corporation II, and St. Louis Parking Commission Finance Corporation.

### Fund Financial Statements

The second set of statements is fund financial statements, which provide information about groupings of related accounts that are used to maintain control over resources for specific activities or objectives. The City uses fund accounting to demonstrate compliance with finance-related legal requirements. The fund financial statements provide more detailed information about the City's most significant funds - not the City as a whole. The funds of the City can be divided into the following three categories: *governmental funds, proprietary funds, and fiduciary funds.*

1. *Governmental Funds***.** Governmental funds tell how general government services were financed in the short term as well as what financial resources remain available for future spending to finance City programs.

   The City maintains several individual governmental funds according to their type (general, special revenue, debt service, and capital projects). Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund, capital projects fund and grants fund, which are considered to be major funds. Individual fund data for each of the nonmajor governmental funds is provided in the form of combining statements.

2. *Proprietary Funds*. Proprietary funds offer short-term and long-term financial information about services for which the City charges customers, both external customers and internal departments of the City. The City maintains the following two types of proprietary funds:

   - *Enterprise Funds* are used to report information similar to business-type activities in the government-wide financial statements. The City uses the enterprise funds to account for the operations of the Lambert-St. Louis International Airport, Water Division, and the Parking Division.

   - *Internal Service Funds* are used to report activities that provide supplies and services for certain City programs and activities. The City uses internal service funds to account for its mail handling services, for payment of workers' compensation and various other claims, and health insurance.

3. *Fiduciary Funds.* Fiduciary funds are used to account for resources held for the benefit of individuals or units outside of the City. The City is the trustee or fiduciary responsible for assets which can be used only for the trust beneficiaries per trust arrangements. The City is responsible for ensuring that the assets reported in these funds are used for their intended purposes. All of the City's fiduciary activities are reported in a separate statement of fiduciary net assets and a statement of changes in fiduciary net assets. The City's pension trust funds and agency funds are reported under the fiduciary funds. Since the resources of these funds are not available to support the City's own programs, they are not reflected in the government-wide financial statements.

**Notes to the Financial Statements**

The notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

**Required Supplementary Information**

In addition to the basic financial statements and notes to the financial statements, this report presents required supplementary information concerning the City's budgetary comparisons for the general fund and required supplementary information pertaining to the Firemen's Retirement System of St. Louis and the Employees' Retirement System of the City of St. Louis pension trust funds. The Police Retirement System of St. Louis uses the aggregate actuarial cost method and, accordingly, no required supplementary information is presented as this method does not identify or separately amortize unfunded actuarially accrued liabilities.

**Combining Statements**

The combining statements provide fund level detail for all nonmajor governmental funds, internal service funds, pension trust funds, and agency funds.

## FINANCIAL ANALYSIS OF THE CITY AS A WHOLE

**Net assets.** The City's combined net assets for fiscal years 2004 and 2003 were $1.5 billion for each year. Looking at the net assets of governmental and business-type activities separately provides additional information.

**The City of St. Louis, Missouri**
**Schedule of Net Assets**
**June 30, 2004 and 2003**
***(dollars in millions)***

| | Governmental Activities | | Business -type Activities | | Total | |
|---|---|---|---|---|---|---|
| | **2004** | **2003** | **2004** | **2003** | **2004** | **2003** |
| | | | | | | |
| **Assets:** | | | | | | |
| Current and other assets | 341.6 | 380.5 | 590.5 | 763.2 | 932.1 | 1,143.7 |
| Capital assets | 776.8 | 730.5 | 1,694.5 | 1,487.0 | 2,471.3 | 2,217.5 |
| **Total assets** | **1,118.4** | **1,111.0** | **2,285.0** | **2,250.2** | **3,403.4** | **3,361.2** |
| | | | | | | |
| **Liabilities:** | | | | | | |
| Long-term debt outstanding | 671.8 | 634.4 | 1,047.9 | 1,069.4 | 1,719.7 | 1,703.8 |
| Other liabilities | 64.7 | 51.5 | 76.9 | 74.8 | 141.6 | 126.3 |
| **Total liabilities** | **736.5** | **685.9** | **1,124.8** | **1,144.2** | **1,861.3** | **1,830.1** |
| | | | | | | |
| **Net assets:** | | | | | | |
| Invested in capital assets, | | | | | | |
| Net of related debt | 329.5 | 326.1 | 928.7 | 810.7 | 1,258.2 | 1,136.8 |
| Restricted | 127.3 | 141.4 | 197.5 | 263.4 | 324.8 | 404.8 |
| Unrestricted | (74.9) | (42.4) | 34.0 | 31.9 | (40.9) | (10.5) |
| **Total net assets** | **381.9** | **425.1** | **1,160.2** | **1,106.0** | **1,542.1** | **1,531.1** |

## ANALYSIS OF NET ASSETS

As noted earlier, net assets may serve as a useful indicator of a government's financial position. For the City, assets exceeded liabilities by $1.5 billion in the current year and the previous year.

The largest portion of the City's net assets, 81.5% reflects its investments of $1.2 billion in capital assets (for example, infrastructure, land, buildings, and equipment); less any related outstanding debt used to acquire those assets. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be liquidated for these liabilities.

Included in the City's total net assets at the end of fiscal 2004 and fiscal 2003, respectively, is $324.8 and $404.8 million, which represents resources that are subject to external restrictions on how they may used.

All net assets generated by governmental activities are either externally restricted or invested in capital assets. Total unrestricted net assets decreased by $32.5 million for the year ended June 30, 2004. Consequently, unrestricted governmental activities net assets showed a $74.9 deficit at the end of this year as compared to a $42.4 million deficit last fiscal year. This deficit does not mean that the City does not have resources available to pay its bills next year. Rather, it is the result of having long-term commitments that are greater than currently available resources. For example, the City's policy and practice is to budget for certain long-term expenses as they come due. Specifically, the City did not include in past annual budgets the full amounts needed to finance future liabilities arising from property and casualty claims and amounts to pay for unused employee vacation and sick days. The City will continue to include these amounts in future year's budgets as they come due.

In addition, four particular features of the City's recent financial activity affected the deficit in unrestricted governmental net assets. These activities over the past several years reflect debt to provide development stimulus for which the City received no offsetting asset. They include the following:

- Section 108 loan agreements, $72.5 million.
- Joint venture financing agreement for the expansion of the convention center, $73.5 million.
- Tax increment financing debt for economic development projects in the amount of $30.7 million.
- Capital lease obligation with component unit for construction of convention center hotel, $40.0 million

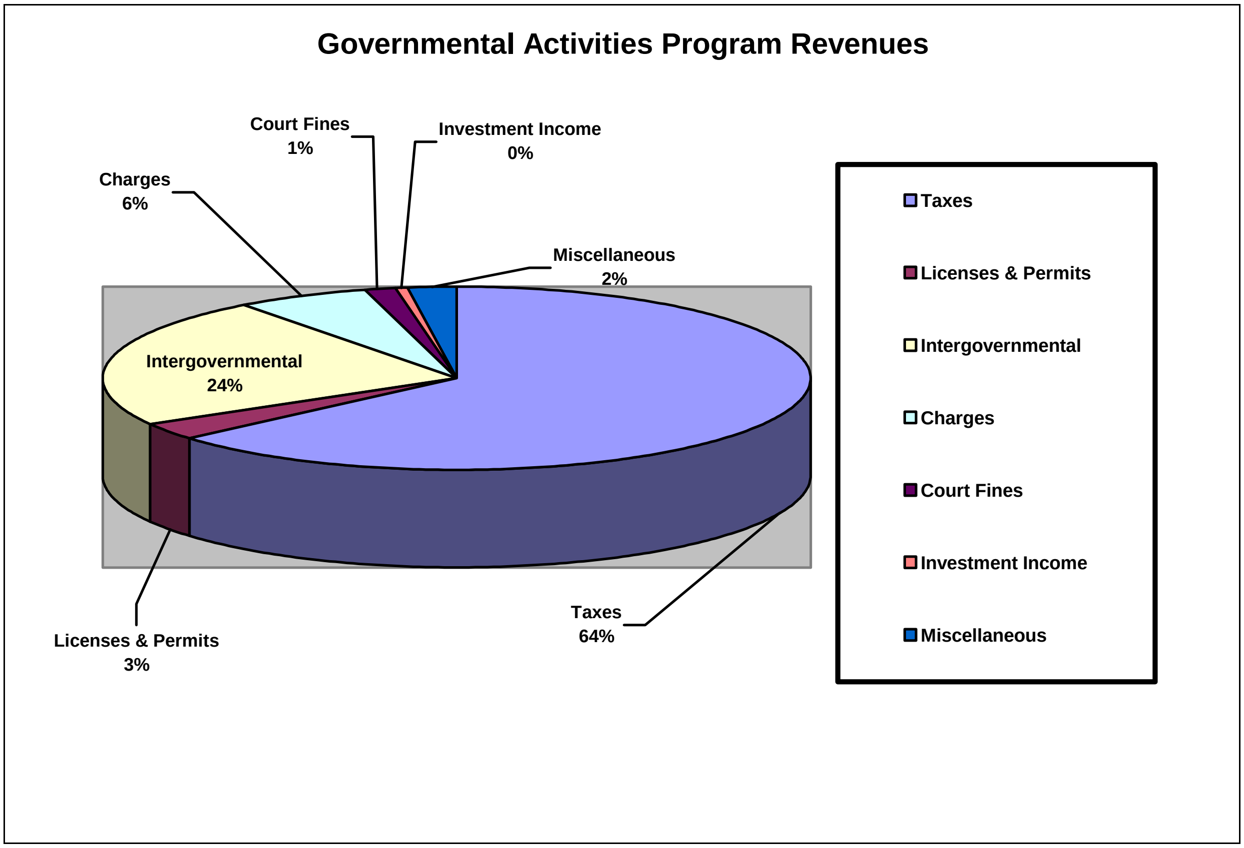
Although the net assets of the business-type activities demonstrated an increase of $54.2 million, these resources cannot be used to make up for the unrestricted net asset deficit in governmental activities. The City generally can only use these net assets to finance the continuing operations of the airport, water, and parking operations.

**City of St. Louis, Missouri**
**Changes in Net Assets**
**June 30, 2004 and 2003**
***(dollars in millions)***

| | Governmental Activities | | Business-type Activities | | Total | |
|---|---|---|---|---|---|---|
| | **2004** | **2003** | **2004** | **2003** | **2004** | **2003** |
| **Revenues:** | | | | | | |
| **Program revenues:** | | | | | | |
| Charges for services | 71.2 | 75.8 | 204.3 | 230.1 | 275.5 | 305.9 |
| Federal and state grants | 145.4 | 117.3 | 48.9 | 44.9 | 194.3 | 162.2 |
| **General revenues** | | | | | | |
| Taxes | 398.0 | 415.1 | | | 398.0 | 415.1 |
| Investment Income | 2.7 | 3.9 | 8.1 | 23.2 | 10.8 | 27.1 |
| **Total revenues** | **617.3** | **612.1** | **261.3** | **298.2** | **878.6** | **910.3** |
| | | | | | | |
| **Expenses:** | | | | | | |
| General government | 91.8 | 69.9 | | | 91.8 | 69.9 |
| Convention and tourism | 4.5 | 6.7 | | | 4.5 | 6.7 |
| Parks and recreation | 23.7 | 20.7 | | | 23.7 | 20.7 |
| Judicial | 47.9 | 51.1 | | | 47.9 | 51.1 |
| Streets | 54.0 | 49.9 | | | 54.0 | 49.9 |
| **Public Safety:** | | | | | | |
| Fire | 51.1 | 50.5 | | | 51.1 | 50.5 |
| Police | 131.5 | 126.5 | | | 131.5 | 126.5 |
| Other | 55.2 | 50.2 | | | 55.2 | 50.2 |
| Health and welfare | 37.0 | 37.8 | | | 37.0 | 37.8 |
| Public service | 73.2 | 67.1 | | | 73.2 | 67.1 |
| Community Development | 64.2 | 59.2 | | | 64.2 | 59.2 |
| Interest on long-term debt | 38.5 | 30.1 | | | 38.5 | 30.1 |
| Airport | | | 147.7 | 158.2 | 147.7 | 158.2 |
| Water Division | | | 41.6 | 40.9 | 41.6 | 40.9 |
| Parking Division | | | 14.0 | 10.1 | 14.0 | 10.1 |
| **Total expenses** | **672.6** | **619.7** | **203.3** | **209.2** | **875.9** | **828.9** |
| | | | | | | |
| Gain on sale | 1.9 | 0.2 | | | 1.9 | 0.2 |
| Special item | 3.0 | | 3.4 | | 6.4 | |
| Transfers | 7.2 | 7.5 | (7.2) | (7.5) | | |
| Increase (decrease) in net assets | (43.2) | 0.1 | 54.2 | 81.5 | 11.0 | 81.6 |
| **Ending net assets** | **381.9** | **425.1** | **1,160.2** | **1,106.0** | **1,542.1** | **1,531.1** |

**Changes in net assets.** The City's total revenue on a government-wide basis was $878.6 million a decrease of $31.7 million over the previous year. Taxes represent 45.3% of the City's revenue as compared to 45.6% last year. Additionally, 31.4% comes from fees charged for services, as compared to 33.6% of the previous year's revenue. The remainder is state and federal aid, interest earnings and miscellaneous revenues.

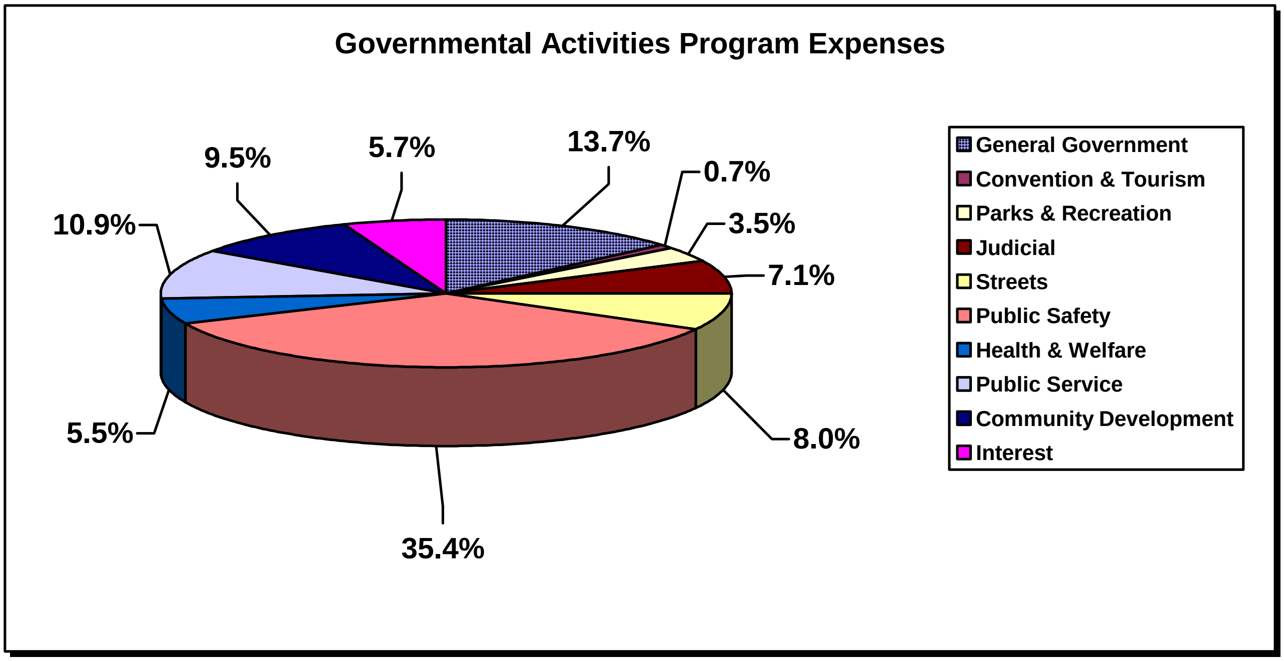
The total cost of all programs and services was $875.9 million, an increase from $828.9 million last year. The City's expenses cover a range of typical city/county services. The largest program was the airport. The program with the largest burden on general revenues was public safety.



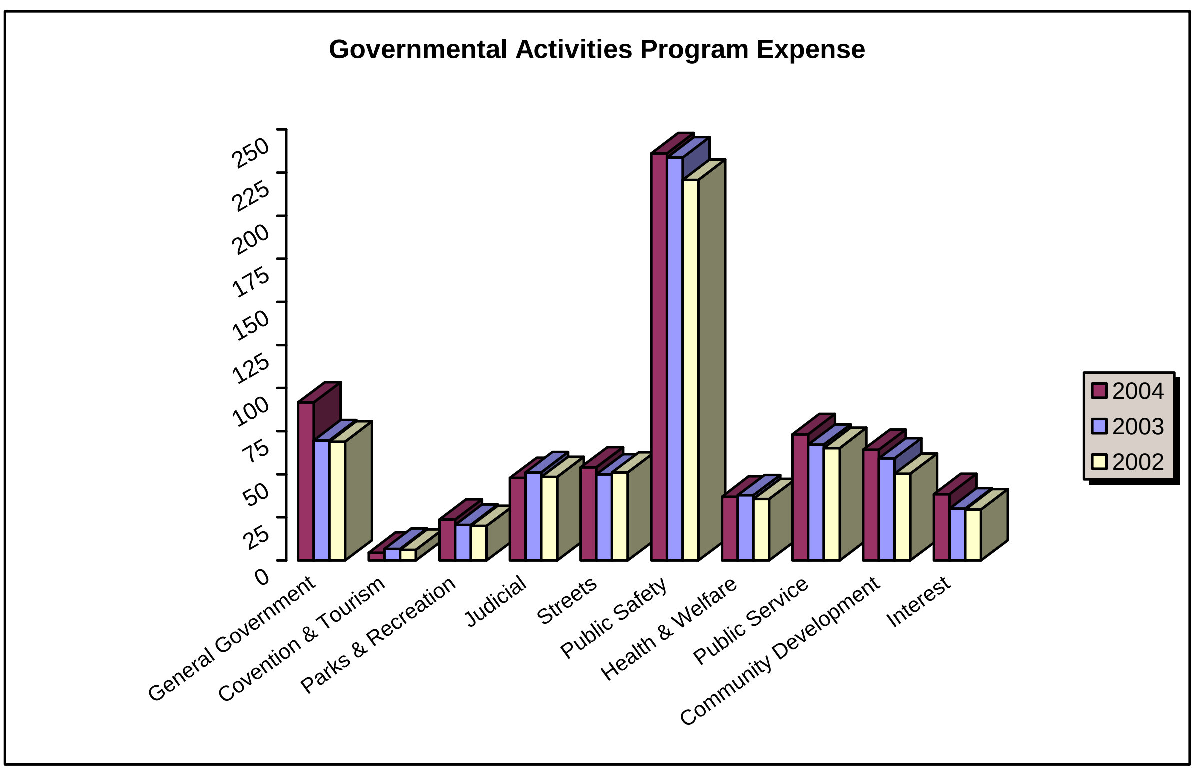

**Governmental activities.** Revenues excluding the gain on the sale of assets increased by $5.2 million (0.9%) while total expenses increased by $52.9 million, (7.9%). Governmental activities decreased the City's net assets by $43.2 million in fiscal 2004. The gain on the sale of capital assets reduces the decrease in net assets by $1.9 million.

General revenues such as property, earnings, payroll and sales taxes are not shown by program, but are included in the Governmental Activities Program Revenues chart to show their significance. The taxes are used to support program activities citywide.

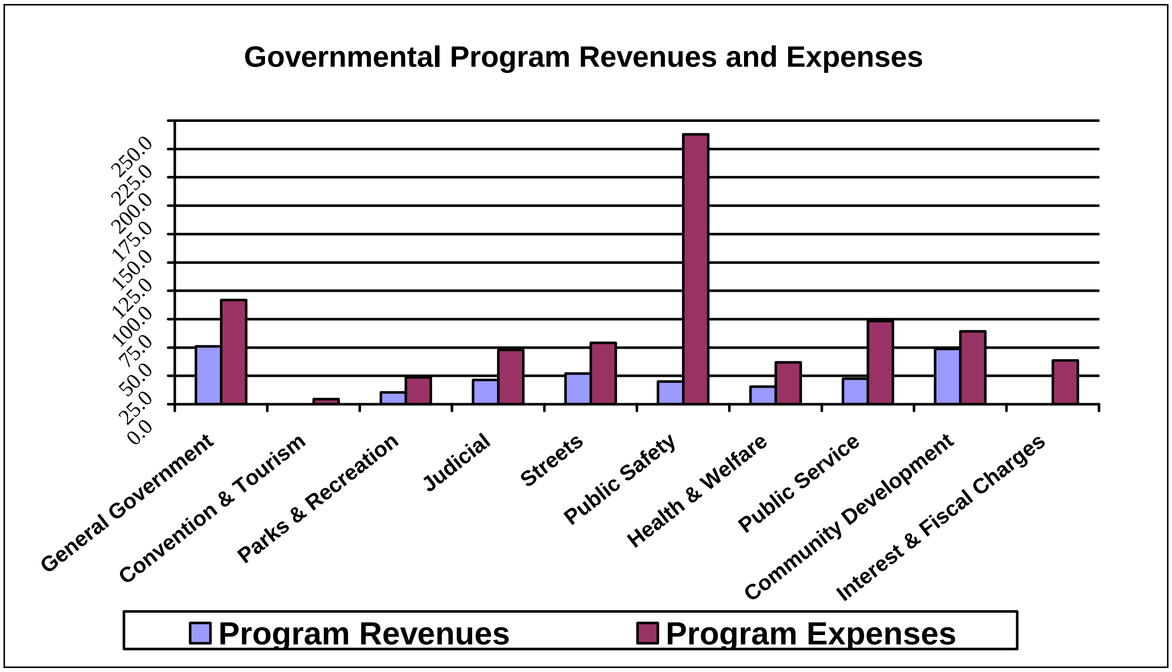
Several revenue sources fell short of the final budget estimates. The shortfalls include various tax revenue, intergovernmental, court fines, and interest. Of the budgeted revenue, charges for services and licenses and permits exceeded the budgeted amount by 7.0% and 0.8%, respectively. Although assessed values for real property has been increasing, the Missouri Constitution requires a rollback of tax rates to prevent a tax revenue windfall to municipal governments.




The charts above illustrate a comparison of the City's governmental activities program revenues and expenses and a breakdown of expenses by function and revenues by source. As shown, public safety is the largest function in expense (35.4%).




The major increase in governmental activities was in the general government program. The increases was caused by the increase in pension obligations for the Employees' Retirement System of $17.2 million, for the Police Retirement System of $5.5 million, and for the Firemen's Retirement System $2.4 million.




**City of St. Louis, Missouri**
**Governmental Activities**
***(dollars in millions)***

| | Total Cost of Services | | | Net Cost of Services | |
|---|---|---|---|---|---|
| | **2004** | **2003** | | **2004** | **2003** |
| General government | 91.8 | 69.9 | | 40.6 | 6.8 |
| Convention and tourism | 4.5 | 6.7 | | 4.5 | 6.7 |
| Parks and recreation | 23.7 | 20.7 | | 13.3 | 16.7 |
| Judicial | 47.9 | 51.1 | | 26.6 | 31.7 |
| Streets | 54.0 | 49.9 | | 26.8 | 44.4 |
| Public Safety: | | | | | |
| Fire | 51.1 | 50.5 | | 45.0 | 43.5 |
| Police | 131.5 | 126.5 | | 129.0 | 126.5 |
| Other | 55.2 | 50.2 | | 43.7 | 42.0 |
| Health and welfare | 37.0 | 37.8 | | 21.5 | 7.3 |
| Public service | 73.2 | 67.1 | | 50.7 | 57.5 |
| Community Development | 64.2 | 59.2 | | 15.5 | 13.5 |
| Totals | 634.1 | 589.6 | | 417.2 | 396.6 |

The charts listed above represent the cost of governmental activities this year, excluding interest and fiscal charges. The cost this year was $634.1 million compared to $589.6 million last year. However, as shown in the statement of activities, the amount that our taxpayers ultimately financed for these activities through City taxes was only $417.4 million. The difference of $216.7 million comprises charges for services ($71.2 million), grants and contributions ($145.5 million).

**City of St. Louis, Missouri**
**Balance Sheet**
**Governmental Funds**
**June 30, 2004**
***(dollars in millions)***

| | 2004 | 2003 | 2004 vs. 2003 $ Change | 2004 vs. 2003 % Change |
|---|---|---|---|---|
| | | | | |
| **Total assets** | 330.6 | 357.0 | (26.4) | (7.3) |
| | | | | |
| **Total liabilities** | 124.9 | 122.6 | 2.3 | 1.9 |
| | | | | |
| **Fund balances:** | | | | |
| Reserved: | 120.3 | 130.8 | (10.5) | (8.0) |
| Unreserved: | | | | |
| General Fund | 44.7 | 52.0 | (7.3) | (14.0) |
| Special Revenue | 43.4 | 41.5 | 1.9 | 4.6 |
| Capital Projects | (2.7) | 10.1 | (12.8) | (126.7) |
| **Total fund balances** | 205.7 | 234.4 | (28.7) | (12.2) |
| **Total liabilities and** | 330.6 | 357.0 | (26.4) | (7.3) |
| **fund balance** | | | | |

## FINANCIAL ANAYSIS OF THE CITY'S FUNDS

The focus of the City's governmental funds is to provide information on inflows, outflows and balances of current financial resources that are available for spending. An unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

At the end of the current fiscal year, the unreserved fund balance of the general fund was $44.7 million, while the total general fund balance was $69.9 million. As of June 30, 2003, the balances were $52.0 million and $76.7 million respectively. As a measure of the general fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures and transfers out. Unreserved fund balance of $44.7 million represents 11.1% of total general fund expenditures and transfers out of $402.6 million, while total fund balance of $69.9 million represents 17.4% of total general fund expenditures and transfers out. This compares to 12.6% and 18.6% respectively in fiscal year 2003.

The total fund balance in the City's general fund decreased by $6.8 million or 8.8% in the current fiscal year. This compares to $11.2 million or 12.7% respectively in the prior year. The change of the current fiscal year's general fund balance is primarily due to:

1. Economically sensitive revenues such as earnings tax, payroll tax, and sales tax remained flat or declined from the previous year.

2. Lower interest rates on City investments and the decrease in available funds for investment caused interest revenues to decrease.

3. The General Fund contributed $7.7 million to the Employee's Retirement System, $1.9 million to the Firemen's Retirement System, and $4.1 million to the Police Retirement System as compared to $11.5, $3.0, and $0.0 million, respectively, in the previous year

4. In fiscal year 2003, the Health Department was fully funded by the Use Tax Fund. In fiscal year 2004, Vector Control and Rabies Control were funded in the General Fund, causing an increase in Health & Welfare expenditures.

5. The Convention Center Revenue Bonds were refinanced in fiscal year 2003. No principal payment was due during fiscal year 2004, decreasing debt service expenditures.

The capital projects fund ended the fiscal year with a negative unreserved fund balance of $2.7 million and a total positive fund balance of $77.3 million as compared to $10.1 million and $105.8 million, respectively, in the prior year. Capital project bond proceeds were in place to cover all expenditures in excess of revenues for the capital projects fund.

The grants fund received $95.6 million in intergovernmental revenues and the Community Development Agency spent $48.6 million or 50.8% of these funds.

**Proprietary Funds**

The City's proprietary funds each issue separate financial statements which provide the same type of information found in the government-wide financial statements, but in more detail.

At the end of the fiscal year, the unrestricted net assets for Lambert-International Airport were $35.0 million, the Water Division $0.7 million, and the Parking Division was a negative $0.2 million as compared to $32.1 million, $1.6 million and negative $1.4 million, respectively in 2003. The internal service funds which are used to account for certain governmental activities also had negative unrestricted net assets in the amount of $18.9 million. Last year the unrestricted net assets were negative $18.0 million. The total growth in net assets for the proprietary funds was $55.2 million in the current year and $81.3 million the previous year. Factors contributing to the finances of these funds have been addressed earlier in the Management's Discussion and Analysis of the City's business-type activities.

**Fiduciary Funds**

The City maintains fiduciary funds for the assets of the pension trust funds for the Firemen's Retirement System, the Police Retirement System, and the Employee's Retirement System. As of the end of the current fiscal year, the net assets of the pension funds totaled $1.4 billion, an increase of $144.0 million from the previous year. The change is primarily due to the increase in market value of the pension funds' investments.

The City is the custodian of the agency funds and the most common use of agency funds is for pass-through activity. Since, by definition, all assets of the agency funds are held for the benefit of other entities, there are no net assets to discuss. As of the end of the current fiscal year, the combined gross assets of the agency funds totaled $53.7 million. This amount comprises activity from the collector of revenue, property tax escrow, general insurance, bail bonds, license collector, and circuit clerk, and other miscellaneous agency activities.

**General Fund Budgetary Highlights**

The final budget for the City's general fund represents the original budget plus any previously appropriated funds set aside for the purpose of honoring legally incurred obligations (prior year encumbrances and commitments) plus any additional supplemental appropriations that may occur during the fiscal year.

In the current fiscal year, $4.6 million had been set aside for prior year encumbrances and commitments, and there were no supplemental appropriations.

Excluding the $4.6 million prior year encumbrance and commitment appropriation, the original general fund budget for the fiscal year 2004 was $411.3 million, as compared to the prior year budget of $415.2 million. General fund revenues and other resources were originally estimated at $411.3 million.

However, during the fiscal year, actual revenues and other sources fell short of original estimates by $21.0 million, with $10.0 million of this amount related to a leveraged lease transaction involving the City's Convention Center that did not occur. Fiscal year 2003 resources fell short of original estimates by $17.9 million. In response to the revenue shortfall, a number of actions were taken to reduce expenditures. Significant budget actions included:

- Application of a portion of surplus Justice Center project funds toward debt service which along with other transfers freed up $8.4 million in general fund payments to capital fund.

- Slow down in filling vacant positions resulting in a net savings of $0.9 million in the amount budgeted for personal services.

- Control of other discretionary spending resulting in total spending of $4.2 million under budget in non-personal services.

As a result, the General Fund ended the year with a deficit of $6.3 million. As of June 30, 2004, the unreserved fund balance of the General Fund was $13.0 million on a cash basis.

## CAPITAL ASETS AND DEBT ADMINISTRATION

### Capital Assets

The City had invested $2.5 billion in a broad range of capital assets, including fire equipment, park facilities, roads, bridges, runways and water systems. This amount represents a net increase for the current fiscal year (including additions and deductions) of $253.8 million, or 11.4%, over last year.

**The City of St. Louis, Missouri**
**Schedule of Changes in Capital Assets,**
**Net of Depreciation**
***(dollars in millions)***

| | Governmental Activities | | Business-type Activities | | Total | |
|---|---|---|---|---|---|---|
| | **2004** | **2003** | **2004** | **2003** | **2004** | **2003** |
| | | | | | | |
| Land | 77.4 | 77.5 | 807.5 | 761.7 | 884.9 | 839.2 |
| Construction in progress | 85.7 | 91.5 | 390.5 | 281.2 | 476.2 | 372.7 |
| Works of art | 2.8 | 2.3 | | | 2.8 | 2.3 |
| Buildings and improvements | 357.0 | 304.5 | 218.6 | 203.0 | 575.6 | 507.5 |
| Equipment | 51.0 | 60.9 | 61.7 | 60.4 | 112.7 | 121.3 |
| Infrastructure | 202.9 | 193.8 | | | 202.9 | 193.8 |
| Pavings | | | 129.5 | 96.4 | 129.5 | 96.4 |
| Reservoirs | | | 29.1 | 29.5 | 29.1 | 29.5 |
| Water mains, line, accessories | | | 57.6 | 54.8 | 57.6 | 54.8 |
| **Total** | **776.8** | **730.5** | **1,694.5** | **1,487.0** | **2,471.3** | **2,217.5** |

This year's major capital asset additions included:

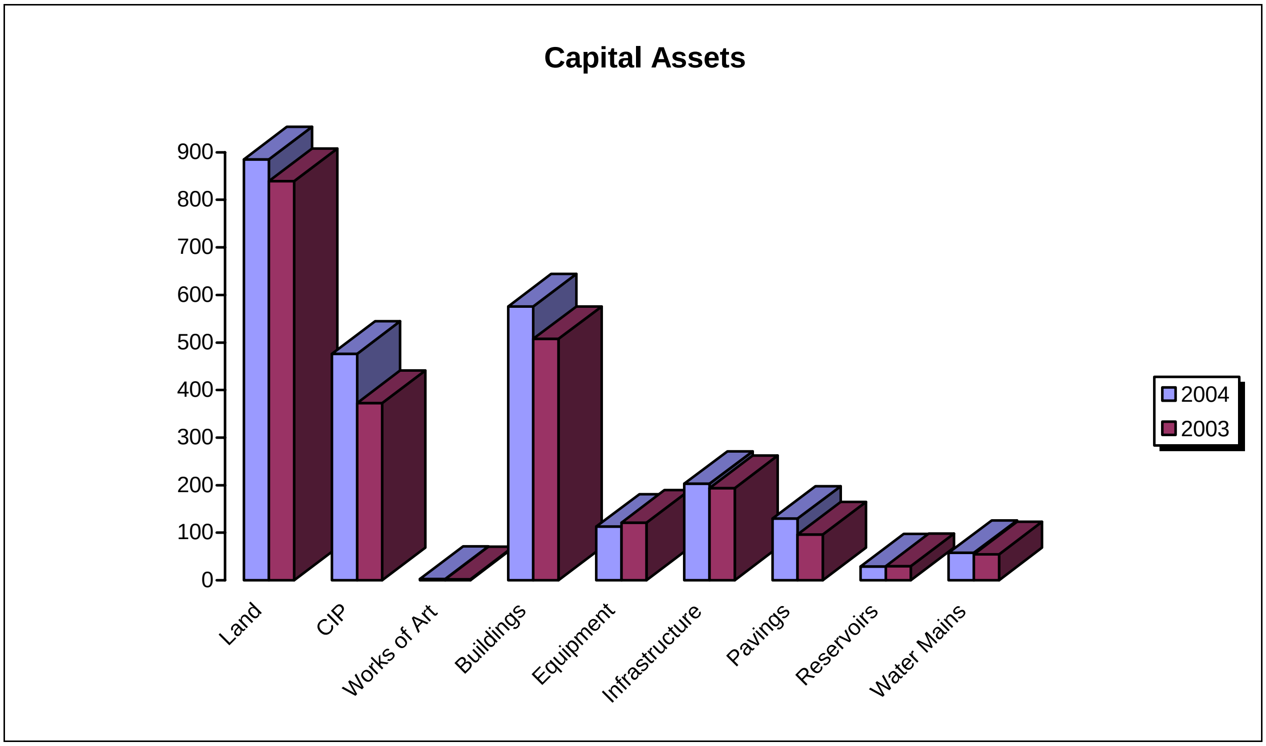
- $ 38.0 million construction work in progress (CIP) addition in governmental activities. Total additions in governmental activities amount to $50 million in governmental activities.

- $174.3 million construction work in progress addition at the Airport.

- $ 46.4 million land additions at the Airport.

The net decrease in construction in progress in governmental activities is due to the completion of the Justice Center. Its cost is now included in buildings and improvements.

There were no major capital asset additions for the Water Division or the Parking Division.




For government-wide financial presentation, all depreciable capital assets were depreciated from acquisition date to the end of the current fiscal year. Fund financial statements record capital asset purchases as expenditures.

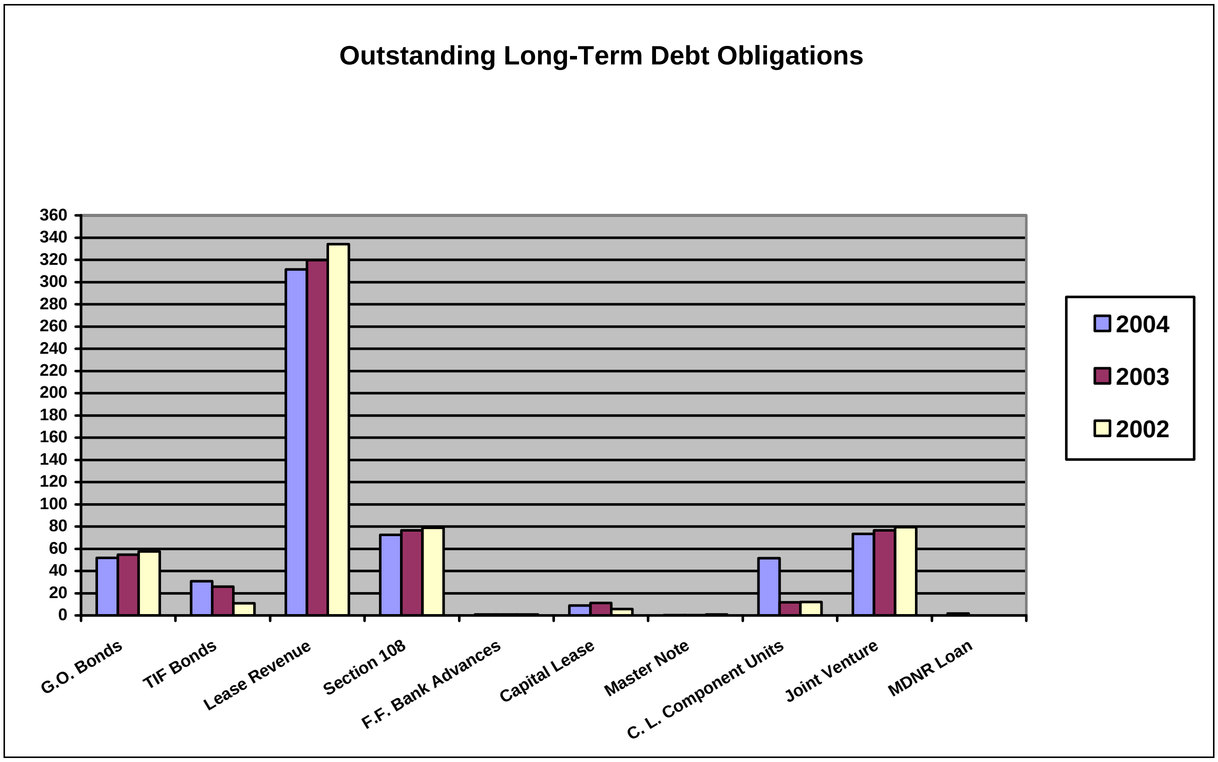
For additional information on capital assets, refer to note 7 in the notes to the basic financial statements.

**Long-Term Debt**

At the end of fiscal year 2004, the City had outstanding long-term debt obligations for governmental activities in the amount of $603.1 million compared to $577.4 million in fiscal year 2003. Of this amount, $51.7 million are general obligation bonds and $30.7 million are tax increment financing bonds. Lease revenue obligations outstanding totaled $311.5 million. The increase of $25.7 million in the City's long-term debt obligations reflects the recognition of $40 million, St. Louis Development Corporation bonds for the purpose of providing funding for the construction of a convention center hotel and the issuance of various Tax Increment Financing bonds in the amount of $14.7 million. The remaining reductions were due to normal scheduled retirements.

**The City of St. Louis, Missouri**
**Outstanding Long-Term Debt Obligations – Governmental Activities**
***(dollars in millions)***

| | **Fiscal Year 2004** | **Fiscal Year 2003** | **% Change** |
|---|---|---|---|
| General obligation bonds | 51.7 | 54.7 | (5.5) |
| Tax increment financing bonds | 30.7 | 25.9 | 18.5 |
| Lease revenue obligations | 311.5 | 319.7 | (2.6) |
| Section 108 loan guarantee assistance | 72.5 | 76.6 | (5.4) |
| Federal financing bank advances | 0.8 | 0.8 | 0.0 |
| Capital lease | 9.0 | 11.1 | (18.9) |
| Master note purchase agreement | 0.2 | 0.3 | (33.3) |
| Obligations under capital leases with component units | 51.4 | 11.8 | 335.6 |
| Joint venture financing agreement | 73.5 | 76.5 | (3.9) |
| MDNR direct loan agreement | 1.8 | 0.0 | 100.0 |
| | | | |
| Total | 603.1 | 577.4 | 4.5 |




State statutes limit the amount of general obligation debt a governmental entity may issue to 10% of its total assessed valuation. The City's authorized debt limit for calendar year 2003 was $336.3 million. The City's effective legal debt margin as of June 30, 2004 was $284.6 million. For additional information on long-term debt, refer to the notes 13 to 17 in the basic financial statements.

The City's underlying general obligation credit ratings remained ***unchanged*** for fiscal year 2004. The City ratings on uninsured general obligation bonds as of June 30, 2004 were:

| | |
|---|---|
| Moody's Investor's Service, Inc. | A3 |
| Standard and Poor's Corporation | A- |
| Fitch IBCA, Inc. Ratings | A- |

**The City of St. Louis, Missouri**
**Outstanding Long-Term Debt Obligations – Business Type Activities**
***(dollars in millions)***

| | Fiscal Year 2004 | Fiscal Year 2003 | % Change |
|---|---|---|---|
| | | | |
| Airport | 930.5 | 961.5 | (3.2) |
| Water Division | 36.7 | 38.9 | (5.7) |
| Parking Division | 68.1 | 62.5 | 5.6 |
| **Total** | **1,035.3** | **1,062.9** | **(2.6)** |

Outstanding revenue bonds of the business-type activities of the City as of June 30, 2004 and June 30, 2003 were $1.035 billion. The amount reflects a decrease of $27.6 million, 2.6%. This amount includes Airport bonds of $930.5 million, Water Division bonds of $36.7 million, and Parking Division bonds of $68.1 million.

**Economic Factors and Next Year's Budget**

- The fiscal year 2005 annual operating budget allocates $791.0 million among all budgeted funds.

- The fiscal year 2005 general fund budget is $403.1 million, a decrease of 2.0 % over the previous fiscal year.

- The FY05 budget contains a combination of service efficiencies and cost reductions, elimination of cost of living pay adjustments and some new as well as one-time revenue sources. However, no draws on unreserved general fund balance have been budgeted.

**Requests for Information**

This financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with a general overview of the City's finances and to demonstrate the City's accountability for the money it receives.

If you have any questions about this report or need additional information, please contact the Office of the Comptroller of the City of St. Louis, c/o Deputy Comptroller, City Hall-Room 311, Saint Louis, Missouri 63103.

**City of St. Louis, Missouri**
**Statement of Net Assets**
**June 30, 2004**
**(dollars in thousands)**

| | Primary Government | | | Component Units | | | |
|---|---|---|---|---|---|---|---|
| | Governmental Activities | Business-type Activities | Total | SLDC | SLPD | HSTRC | SWMDC |
| **ASSETS** | | | | | | | |
| Cash and cash equivalents | $ 31,842 | 14,489 | 46,331 | 8,153 | 433 | 10 | 741 |
| Investments | 91,616 | 7,054 | 98,670 | - | 2,513 | - | 669 |
| Receivables, net | 125,160 | 26,392 | 151,552 | 11,954 | 577 | - | - |
| Inventories | - | 3,898 | 3,898 | - | 695 | - | - |
| Restricted assets | 56,612 | 520,958 | 577,570 | 2,428 | 683 | - | - |
| Deferred charges | 5,433 | 25,222 | 30,655 | - | 121 | - | - |
| Internal balances | 8,113 | (8,113) | - | - | - | - | - |
| Other assets | 57 | 602 | 659 | 538 | 6 | 50 | - |
| Receivable from primary government | - | - | - | 3,364 | 6,023 | - | - |
| Receivable from component unit | 1,193 | - | 1,193 | - | - | - | - |
| Net pension asset | 21,647 | - | 21,647 | - | - | - | - |
| Property held for development | - | - | - | 15,227 | - | - | - |
| Capital assets, net | | | | | | | |
| Non-depreciable | 165,836 | 1,197,993 | 1,363,829 | 4,914 | 1,646 | - | - |
| Depreciable | 610,919 | 496,585 | 1,107,504 | 13,155 | 22,100 | - | 5,394 |
| Total assets | 1,118,428 | 2,285,080 | 3,403,508 | 59,733 | 34,797 | 60 | 6,804 |
| **LIABILITIES** | | | | | | | |
| Accounts payable and accrued liabilities | 24,869 | 33,553 | 58,422 | 5,073 | 574 | 294 | - |
| Accrued salaries and other benefits | 10,151 | 3,462 | 13,613 | - | 4,866 | 204 | - |
| Accrued interest payable | 17,408 | 25,251 | 42,659 | 415 | - | - | - |
| Deferred revenue | 616 | 4,325 | 4,941 | - | 301 | - | - |
| Other liabilities | 2,722 | - | 2,722 | - | 71 | 10 | - |
| Commercial paper payable | - | 10,000 | 10,000 | - | - | - | - |
| Payable to primary government | - | - | - | 44 | 1,149 | - | - |
| Payable to component units | 8,987 | 400 | 9,387 | - | - | - | - |
| Long-term liabilities: | | | | | | | |
| Due within one year | 60,367 | 47,514 | 107,881 | 9,643 | 14,911 | - | - |
| Due in more than one year | 611,380 | 1,000,384 | 1,611,764 | 26,803 | 60,692 | - | - |
| Total liabilities | 736,500 | 1,124,889 | 1,861,389 | 41,978 | 82,564 | 508 | - |
| **NET ASSETS** | | | | | | | |
| Invested in capital assets, net of related debt | 329,535 | 928,652 | 1,258,187 | 4,749 | 18,224 | - | 5,394 |
| Restricted: | | | | | | | |
| Debt service | 38,574 | 150,070 | 188,644 | 2,219 | 671 | - | - |
| Capital projects | 36,088 | 10,178 | 46,266 | - | - | - | - |
| Passenger facility charges | - | 37,278 | 37,278 | - | - | - | - |
| Other purposes | 52,643 | - | 52,643 | - | - | - | - |
| Unrestricted (deficit) | (74,912) | 34,013 | (40,899) | 10,787 | (66,662) | (448) | 1,410 |
| Total net assets | $ 381,928 | 1,160,191 | 1,542,119 | 17,755 | (47,767) | (448) | 6,804 |

See accompanying notes to basic financial statements.

**City of St. Louis, Missouri**
**Statement of Activities**
**For the year ended June 30, 2004**
**(dollars in thousands)**

| | | Program Revenues | | | Net (Expense) Revenue and Changes in Net Assets | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | Primary Government | | | Component Units | | | |
| **Functions/Programs** | **Expenses** | **Charges for Services** | **Operating Grants and Contributions** | **Capital Grants and Contributions** | **Governmental Activities** | **Business-type Activities** | **Total** | **SLDC** | **SLPD** | **HSTRC** | **SWMDC** |
| **Primary Government:** | | | | | | | | | | | |
| Governmental activities: | | | | | | | | | | | |
| General government | $ 91,752 | 34,938 | 16,170 | - | (40,644) | - | (40,644) | - | - | - | - |
| Convention and tourism | 4,538 | - | - | - | (4,538) | - | (4,538) | - | - | - | - |
| Parks and recreation | 23,687 | 1,503 | 7 | 8,881 | (13,296) | - | (13,296) | - | - | - | - |
| Judicial | 47,897 | 12,152 | 9,157 | - | (26,588) | - | (26,588) | - | - | - | - |
| Streets | 53,937 | 7,373 | 19,720 | - | (26,844) | - | (26,844) | - | - | - | - |
| Public safety: | | | | | | | | | | | |
| Fire | 51,160 | 2,923 | 3,180 | - | (45,057) | - | (45,057) | - | - | - | - |
| Police - Payment to SLPD | 131,490 | 2,500 | - | - | (128,990) | - | (128,990) | - | - | - | - |
| Other | 55,257 | 9,180 | 2,348 | - | (43,729) | - | (43,729) | - | - | - | - |
| Health and welfare | 37,022 | 283 | 15,254 | - | (21,485) | - | (21,485) | - | - | - | - |
| Public service | 73,198 | 387 | 14,725 | 7,356 | (50,730) | - | (50,730) | - | - | - | - |
| Community development | 64,188 | - | 48,663 | - | (15,525) | - | (15,525) | - | - | - | - |
| Interest and fiscal charges | 38,501 | - | - | - | (38,501) | - | (38,501) | - | - | - | - |
| Total governmental activities | 672,627 | 71,239 | 129,224 | 16,237 | (455,927) | - | (455,927) | - | - | - | - |
| Business-type activities: | | | | | | | | | | | |
| Airport | 147,645 | 150,762 | 4,662 | 44,242 | - | 52,021 | 52,021 | - | - | - | - |
| Water Division | 41,641 | 41,594 | - | - | - | (47) | (47) | - | - | - | - |
| Parking Division | 14,095 | 11,945 | - | | - | (2,150) | (2,150) | - | - | - | - |
| Total business-type activities | 203,381 | 204,301 | 4,662 | 44,242 | - | 49,824 | 49,824 | - | - | - | - |
| Total primary government | $ 876,008 | 275,540 | 133,886 | 60,479 | (455,927) | 49,824 | (406,103) | - | - | - | - |
| **Component Units:** | | | | | | | | | | | |
| SLDC | 24,160 | 10,734 | 13,200 | - | - | - | - | (226) | - | - | - |
| SLPD | 157,017 | 2,664 | 4,478 | 330 | - | - | - | - | (149,545) | - | - |
| HSTRC | 770 | - | - | - | - | - | - | - | - | (770) | - |
| SWMDC | 256 | 325 | - | 8 | - | - | - | - | - | - | 77 |
| Total component units | $ 182,203 | 13,723 | 17,678 | 338 | - | - | - | (226) | (149,545) | (770) | 77 |
| General revenues: | | | | | | | | | | | |
| Taxes: | | | | | | | | | | | |
| Property taxes, levied for general purpose | | | | | 48,656 | - | 48,656 | - | - | - | - |
| Property taxes, levied for debt service | | | | | 5,972 | - | 5,972 | - | - | - | - |
| Sales taxes | | | | | 117,859 | - | 117,859 | - | - | - | - |
| Earnings/payroll taxes | | | | | 148,081 | - | 148,081 | - | - | - | - |
| Gross receipts taxes (includes franchise tax) | | | | | 59,091 | - | 59,091 | - | - | - | - |
| Miscellaneous taxes | | | | | 18,331 | - | 18,331 | - | - | - | - |
| Unrestricted investment earnings | | | | | 2,693 | 8,168 | 10,861 | 185 | 27 | - | 5 |
| Support provided by City of St. Louis, Missouri | | | | | - | - | - | - | 131,490 | 108 | - |
| On-behalf payment for pension contribution from the City of St. Louis, Missouri | | | | | - | - | - | - | 4,116 | - | - |
| Gain on sale of capital assets | | | | | 1,869 | - | 1,869 | - | - | - | - |
| Special item - recovery of legal judgment | | | | | 2,972 | 3,400 | 6,372 | - | 230 | - | - |
| Transfers | | | | | 7,219 | (7,219) | - | - | - | - | - |
| Total general revenues and transfers | | | | | 412,743 | 4,349 | 417,092 | 185 | 135,863 | 108 | 5 |
| Change in net assets | | | | | (43,184) | 54,173 | 10,989 | (41) | (13,682) | (662) | 82 |
| Net assets - beginning of year | | | | | 425,112 | 1,106,018 | 1,531,130 | 17,796 | (34,085) | 214 | 6,722 |
| Net assets - end of year | | | | | $ 381,928 | 1,160,191 | 1,542,119 | 17,755 | (47,767) | (448) | 6,804 |

See accompanying notes to basic financial statements.

**City of St. Louis, Missouri**
**Balance Sheet**
**Governmental Funds**
**June 30, 2004**
**(dollars in thousands)**

| | Major Funds | | | Nonmajor Funds | |
|---|---|---|---|---|---|
| | General Fund | Capital Projects Fund | Grants Fund | Other Governmental Funds | Total Governmental Funds |
| **ASSETS** | | | | | |
| Cash and cash equivalents: | | | | | |
| Restricted | $ 2,810 | - | - | 9,011 | 11,821 |
| Unrestricted | - | 15,864 | - | 15,916 | 31,780 |
| Investments: | | | | | |
| Restricted | 24,274 | 19,086 | - | 1,431 | 44,791 |
| Unrestricted | 12,092 | 43,207 | 17,430 | 18,887 | 91,616 |
| Receivables, net of allowances: | | | | | |
| Taxes | 80,152 | 2,650 | - | 20,338 | 103,140 |
| Intergovernmental | 2,051 | 4,862 | 8,721 | 234 | 15,868 |
| Charges for services | 2,715 | - | - | 2,351 | 5,066 |
| Notes and loans | - | - | - | 186 | 186 |
| Other | 890 | - | - | - | 890 |
| Due from component units | 1,149 | - | - | 44 | 1,193 |
| Due from other funds | 17,711 | - | - | 6,568 | 24,279 |
| Total assets | 143,844 | 85,669 | 26,151 | 74,966 | 330,630 |
| **LIABILITIES AND FUND BALANCES** | | | | | |
| Liabilities: | | | | | |
| Accounts payable and accrued liabilities | 3,337 | 7,971 | 12,035 | 1,066 | 24,409 |
| Accrued salaries and other benefits | 8,460 | 169 | 684 | 838 | 10,151 |
| Due to component units | 6,023 | - | - | 2,964 | 8,987 |
| Due to other funds | 863 | 140 | 13,494 | 314 | 14,811 |
| Deferred revenue | 52,647 | 39 | - | 11,182 | 63,868 |
| Other liabilities | 2,608 | - | - | 102 | 2,710 |
| Total liabilities | 73,938 | 8,319 | 26,213 | 16,466 | 124,936 |
| Fund balances: | | | | | |
| Reserved: | | | | | |
| Encumbrances | 1,069 | 42,612 | - | 6,724 | 50,405 |
| Debt service | 24,058 | 1,385 | - | 8,292 | 33,735 |
| Capital projects | - | 36,088 | - | - | 36,088 |
| Unreserved, reported in: | | | | | |
| General fund | 44,779 | - | - | - | 44,779 |
| Special revenue funds | - | - | (62) | 43,484 | 43,422 |
| Capital projects fund | - | (2,735) | - | - | (2,735) |
| Total fund balances | 69,906 | 77,350 | (62) | 58,500 | 205,694 |
| Total liabilities and fund balances | $ 143,844 | 85,669 | 26,151 | 74,966 | 330,630 |

See accompanying notes to basic financial statements.

**City of St. Louis, Missouri**
**Reconciliation of the Balance Sheet of Governmental Funds**
**to the Statement of Net Assets**
**For the year ended June 30, 2004**
**(dollars in thousands)**

| | | |
|---|---|---|
| Total fund balances - governmental funds - balance sheet | $ | 205,694 |
| Amounts reported for governmental activities in the statement of net assets are different because: | | |
| Capital assets used in governmental activities (excluding internal service fund capital assets) are not financial resources and therefore are not reported in the fund financial statements. | | 776,694 |
| Various taxes related to fiscal year 2004 will be collected beyond the 60 day period used to record revenue in the fund financial statements. Revenue for this amount is recognized in the government-wide financial statements. | | 9,696 |
| Property taxes are assessed by the City on January 1st of each calendar year, but are not due until December 31st. Taxes assessed on January 1, 2004 and payable on December 31, 2004 are deferred within the fund financial statements. However, revenue for this amount is recognized in the government-wide financial statements. | | 53,556 |
| Internal service funds are used by management to charge the cost of risk management and mailroom services to the individual funds, generally on a cost reimbursement basis. The assets and liabilities of internal service funds are included in governmental activities in the statement of net assets, net of amounts due from enterprise funds. | | (17,350) |
| The City reports a net pension asset on the statement of net assets to the extent contributions to the City's retirement plan exceeds the annual required contribution. This asset is not reported within the fund financial statements as it is not available to liquidate current financial obligations. | | 21,647 |
| Bond issuance costs are reported in the governmental funds financial statements as expenditures when debt is issued, whereas the amounts are deferred and amortized over the life of the debt on the government-wide financial statements. | | 5,433 |
| Long-term liabilities applicable to the City's governmental activities are not due and payable in the current period and accordingly are not reported as liabilities within the fund financial statements. Interest on long-term debt is not accrued in governmental funds, but rather is recognized as an expenditure when due. All liabilities - both current and long-term - are reported on the government-wide statement of net assets. Also, during the year the City issued new debt and refunded some of its existing debt. Discounts, premiums, bond issuance costs, and deferred amounts on refunding are reported in the governmental fund financial statements when the debt was issued, whereas these amounts are deferred and amortized over the life of the debt on the government-wide financial statements. | | |
| Balances as of June 30, 2004 are: | | |
| Accrued compensated absences | | (26,401) |
| Net pension obligation | | (26,527) |
| Accrued interest payable on bonds | | (17,408) |
| Landfill closure liability | | (234) |
| Capital lease | | (60,521) |
| Bonds and notes payable | | (542,764) |
| Unamortized discounts | | 709 |
| Unamortized premiums | | (12,068) |
| Unamortized deferred amounts on refunding | | 11,772 |
| Total net assets - governmental activities - statement of net assets | $ | 381,928 |

See accompanying notes to basic financial statements.

**City of St. Louis, Missouri**
**Statement of Revenues, Expenditures, and Changes in Fund Balances**
**Governmental Funds**
**For the year ended June 30, 2004**
**(dollars in thousands)**

| | Major Funds | | | Nonmajor Funds | |
|---|---|---|---|---|---|
| | General Fund | Capital Projects Fund | Grants Fund | Other Governmental Funds | Total Governmental Funds |
| **REVENUES** | | | | | |
| Taxes | $ 294,387 | 17,770 | - | 84,109 | 396,266 |
| Licenses and permits | 16,960 | - | - | 2,625 | 19,585 |
| Intergovernmental | 22,531 | 17,683 | 95,602 | 3,821 | 139,637 |
| Charges for services, net | 15,810 | - | - | 13,401 | 29,211 |
| Court fines and forfeitures | 8,906 | - | - | 401 | 9,307 |
| Investment income | 1,621 | 713 | - | 359 | 2,693 |
| Interfund services provided | 3,921 | - | - | - | 3,921 |
| Miscellaneous | 4,263 | 2,890 | - | 3,333 | 10,486 |
| Total revenues | 368,399 | 39,056 | 95,602 | 108,049 | 611,106 |
| **EXPENDITURES** | | | | | |
| Current: | | | | | |
| General government | 43,036 | - | 4,384 | 14,428 | 61,848 |
| Convention and tourism | 199 | - | - | 87 | 286 |
| Parks and recreation | 18,501 | 1,713 | 7 | 656 | 20,877 |
| Judicial | 40,059 | - | 4,680 | 2,510 | 47,249 |
| Streets | 28,695 | 3,929 | - | 1,352 | 33,976 |
| Public Safety: | | | | | |
| Fire | 49,375 | - | - | 19 | 49,394 |
| Police | 129,388 | 1,089 | - | 1,013 | 131,490 |
| Other | 45,013 | - | 1,634 | 7,691 | 54,338 |
| Health and welfare | 4,989 | - | 14,891 | 16,712 | 36,592 |
| Public services | 22,131 | 6,551 | 14,725 | 29,478 | 72,885 |
| Community development | - | - | 48,663 | 6,486 | 55,149 |
| Capital outlay | - | 44,512 | - | 328 | 44,840 |
| Debt service: | | | | | |
| Principal | 5,923 | 7,751 | 4,105 | 5,367 | 23,146 |
| Interest and fiscal charges | 13,909 | 5,197 | 4,446 | 5,186 | 28,738 |
| Total expenditures | 401,218 | 70,742 | 97,535 | 91,313 | 660,808 |
| Excess (deficiency) of revenues over expenditures | (32,819) | (31,686) | (1,933) | 16,736 | (49,702) |
| **OTHER FINANCING SOURCES (USES)** | | | | | |
| Sale of capital assets | - | 1,869 | - | - | 1,869 |
| Proceeds of government loan | - | - | 1,953 | - | 1,953 |
| Proceeds from tax increment revenue bonds and notes | - | - | - | 14,766 | 14,766 |
| Discount on tax increment revenue bonds | - | - | - | (40) | (40) |
| Payment to refunded tax increment revenue notes escrow agent | - | - | - | (7,747) | (7,747) |
| Recovery of legal judgment | 2,972 | - | - | - | 2,972 |
| Transfers in | 24,458 | 10,634 | - | 2,764 | 37,856 |
| Transfers out | (1,419) | (9,257) | (20) | (19,941) | (30,637) |
| Total other financing sources (uses), net | 26,011 | 3,246 | 1,933 | (10,198) | 20,992 |
| Net change in fund balances | (6,808) | (28,440) | - | 6,538 | (28,710) |
| Fund balances: | | | | | |
| Beginning of year | 76,714 | 105,790 | (62) | 51,962 | 234,404 |
| End of year | $ 69,906 | 77,350 | (62) | 58,500 | 205,694 |

See accompanying notes to basic financial statements.

**City of St. Louis, Missouri**
**Reconciliation of the Statement of Revenues, Expenditures,**
**and Changes in Fund Balances of Governmental Funds**
**to the Statement of Activities**
**For the year ended June 30, 2004**
**(dollars in thousands)**

| | | | |
|---|---|---|---|
| Net change in fund balances - governmental funds - statement of revenues, expenditures, and changes in fund balances | | $ | (28,710) |
| Amounts reported for governmental activities in the statement of activities are different because: | | | |
| Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets, meeting the capitalization threshold, is allocted over their estimated useful lives and recorded as depreciation expense. Additionally, contributions of capital assets to the City are recorded as capital contributions on the statement of activities. This is the amount by which capital outlays and capital contributions, meeting the capitalization threshold, exceeded depreciation expense in the current year. | | | 46,224 |
| Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the fund financial statements. These amounts represent the extent to which revenues not providing current financial resources in the current fiscal year exceeded revenues not providing current financial resources in the prior fiscal year (which are recognized in the fund financial statements in the current year). Such amounts are attributable to the following factors: | | | |
| Revenues received after the 60-day accrual period | (4,613) | | |
| Property taxes due in the fiscal year following the fiscal year in which they were assessed | 2,892 | | |
| | | | (1,721) |
| Internal service funds are used by management to charge the cost of risk management and mailroom serivces to the individual funds. The net income of internal service funds attributable to governmental activities is reported on the statement of activities. | | | 158 |
| The City reports a net pension asset or obligation on the statement of net assets to the extent actual contributions to the City's retirement plans exceed or fall below the annual required contribution. This asset or obligation is not reported in the fund financial statements. Fluctuations in net pension assets or obligations are reported in the statement of activities. | | | (21,675) |
| Bond proceeds are reported as financing sources in governmental funds financial statements and thus contribute to the net change in fund balance. In the statement of net assets, however, issuing debt increases long-term liabilities and does not affect the statement of activities. Similarly, repayment of principal is an expenditure in the governmental funds financial statements but reduces the liability in the statement of net assets. | | | |
| Debt issued during the current year: | | | |
| Missouri Department of Natural Resources loan agreement | (1,953) | | |
| Capital leases with component unit | (40,000) | | |
| Tax increment financing bonds and notes payable | (14,766) | | |
| Repayments during the current year: | | | |
| Advance refunding of tax increment revenue notes | 7,747 | | |
| Annual principal payments on bonds and notes payable | 20,703 | | |
| Annual principal payments on capital leases | 2,443 | | |
| | | | (25,826) |
| Under the modified accrual basis of accounting used in the governmental funds financial statements, expenditures are not recognized for transactions that are not normally paid with expendable available financial resources. In the statement of activities, however, which is presented on the accrual basis of accounting, expenses and liabilities are reported regardless of when financial resources are available. In addition, interest on long-term debt is not recognized under the modified accrual basis of accounting until due, rather than as it accrues. | | | |
| This adjustment combines the net changes of the following: | | | |
| Accrued compensated absences | (1,890) | | |
| Accrued interest payable on bonds | (10,022) | | |
| Landfill closure liability | (14) | | |
| Arbitrage rebate liability | 435 | | |
| Discounts on debt issuances, net of amortization | (4) | | |
| Premiums on debt issuances, net of amortization | 1,201 | | |
| Deferred bond issuance costs, net of amortization | (205) | | |
| Deferred advanced refunding differences on debt issuances, net of amortization | (1,135) | | |
| | | | (11,634) |
| Change in net assets - governmental activities - statement of activities | | $ | (43,184) |

See accompanying notes to basic financial statements.

**City of St. Louis, Missouri**
**Statement of Fund Net Assets**
**Proprietary Funds**
**June 30, 2004**
**(dollars in thousands)**

| | Major Funds - Enterprise Funds | | | | |
|---|---|---|---|---|---|
| | Lambert-St. Louis International Airport | Water Division | Parking Division | Total Enterprise Funds | Internal Service Funds |
| **ASSETS** | | | | | |
| Current assets: | | | | | |
| Cash and cash equivalents: | | | | | |
| Restricted cash and cash equivalents | $ 105,681 | 1,874 | 6,182 | 113,737 | - |
| Unrestricted cash and cash equivalents | 9,355 | 2,292 | 2,842 | 14,489 | 62 |
| Receivables, net of allowances: | | | | | |
| Intergovernmental | 6,491 | - | - | 6,491 | - |
| Charges for services | 12,953 | 5,809 | 63 | 18,825 | 10 |
| Accrued interest | 1,076 | - | - | 1,076 | - |
| Prepaid assets | - | - | - | - | 57 |
| Due from other funds | 6 | - | - | 6 | 3,972 |
| Inventories | 1,986 | 1,912 | - | 3,898 | - |
| Other current assets | 585 | 17 | - | 602 | - |
| Total current assets | 138,133 | 11,904 | 9,087 | 159,124 | 4,101 |
| Noncurrent assets: | | | | | |
| Investments: | | | | | |
| Restricted investments | 384,203 | 17,246 | 5,772 | 407,221 | - |
| Unrestricted investments | - | 5,054 | 2,000 | 7,054 | - |
| Capital assets: | | | | | |
| Property, plant, and equipment | 732,385 | 243,437 | 56,872 | 1,032,694 | 205 |
| Less accumulated depreciation | (426,301) | (100,890) | (8,918) | (536,109) | (144) |
| | 306,084 | 142,547 | 47,954 | 496,585 | 61 |
| Land | 785,535 | 1,238 | 20,724 | 807,497 | - |
| Construction in progress | 382,533 | 7,963 | - | 390,496 | - |
| Capital assets, net | 1,474,152 | 151,748 | 68,678 | 1,694,578 | 61 |
| Deferred charges and other assets | 22,272 | 465 | 2,485 | 25,222 | - |
| Total noncurrent assets | 1,880,627 | 174,513 | 78,935 | 2,134,075 | 61 |
| Total assets | 2,018,760 | 186,417 | 88,022 | 2,293,199 | 4,162 |
| **LIABILITIES** | | | | | |
| Current liabilities: | | | | | |
| Accounts payable and accrued liabilities | 2,640 | 3,146 | 168 | 5,954 | 460 |
| Accrued salaries and other benefits | 2,189 | 1,008 | 265 | 3,462 | - |
| Accrued vacation, compensatory and sick time benefits | 4,837 | 2,920 | 167 | 7,924 | - |
| Contracts and retainage payable | 27,376 | - | 223 | 27,599 | - |
| Accrued interest payable | 23,776 | 863 | 612 | 25,251 | - |
| Current portion of revenue bonds | 35,775 | 2,365 | 1,450 | 39,590 | - |
| Commercial paper payable | 10,000 | - | - | 10,000 | - |
| Due to other funds | 3,159 | 2,736 | 727 | 6,622 | 6,824 |
| Due to component unit | - | - | 400 | 400 | - |
| Claims payable | - | - | - | - | 15,713 |
| Deferred revenue | 807 | 1,351 | 2,167 | 4,325 | - |
| Total current liabilities | 110,559 | 14,389 | 6,179 | 131,127 | 22,997 |
| Noncurrent liabilities: | | | | | |
| Revenue bonds payable, net | 893,248 | 32,654 | 64,003 | 989,905 | - |
| Deposits held for others | - | 1,354 | - | 1,354 | - |
| Other liabilities | 6,090 | 2,460 | 575 | 9,125 | 12 |
| Total noncurrent liabilities | 899,338 | 36,468 | 64,578 | 1,000,384 | 12 |
| Total liabilities | 1,009,897 | 50,857 | 70,757 | 1,131,511 | 23,009 |
| **NET ASSETS** | | | | | |
| Invested in capital assets, net of related debt | 806,056 | 117,066 | 5,530 | 928,652 | 61 |
| Restricted: | | | | | |
| Debt service | 130,527 | 7,588 | 11,955 | 150,070 | - |
| Capital projects | - | 10,178 | - | 10,178 | - |
| Passenger facility charges | 37,278 | - | - | 37,278 | - |
| Unrestricted (deficit) | 35,002 | 728 | (220) | 35,510 | (18,908) |
| Total net assets | $ 1,008,863 | 135,560 | 17,265 | 1,161,688 | (18,847) |

Amounts reported for business-type activities in the government-wide statement of net assets are different because:

| | |
|---|---|
| Certain internal service fund assets are included within business-type activities | (1,497) |
| Net assets of business-type activities - government-wide statement of net assets | $ 1,160,191 |

See accompanying notes to basic financial statements.

**City of St. Louis, Missouri**
**Statement of Revenues, Expenses, and**
**Changes in Fund Net Assets**
**Proprietary Funds**
**For the year ended June 30, 2004**
**(dollars in thousands)**

| | Major Funds - Enterprise Funds | | | | |
|---|---|---|---|---|---|
| | Lambert- St. Louis International Airport | Water Division | Parking Division | Total Enterprise Funds | Internal Service Funds |
| **OPERATING REVENUES** | | | | | |
| Aviation revenues | $ 70,695 | - | - | 70,695 | - |
| Concessions | 31,604 | - | - | 31,604 | - |
| Water sales | - | 38,698 | - | 38,698 | - |
| Lease revenue | 16,135 | - | - | 16,135 | - |
| Parking | 894 | - | 11,945 | 12,839 | - |
| Charges for services | - | - | - | - | 33,278 |
| Miscellaneous | - | 2,896 | - | 2,896 | - |
| Total operating revenues | 119,328 | 41,594 | 11,945 | 172,867 | 33,278 |
| **OPERATING EXPENSES** | | | | | |
| Claims incurred | - | - | - | - | 34,974 |
| Premiums | - | - | - | - | 3,204 |
| Personal services | 36,074 | 15,689 | 5,351 | 57,114 | 214 |
| Material and supplies | 4,815 | 6,952 | 195 | 11,962 | 336 |
| Purchased power | - | 2,874 | - | 2,874 | - |
| Contractual services | 30,847 | 3,715 | 1,177 | 35,739 | 1,795 |
| Miscellaneous | - | 1,934 | 313 | 2,247 | - |
| Depreciation and amortization | 30,468 | 4,445 | 1,761 | 36,674 | 21 |
| Interfund services used | 1,886 | 1,955 | 80 | 3,921 | - |
| Total operating expenses | 104,090 | 37,564 | 8,877 | 150,531 | 40,544 |
| Operating income (loss) | 15,238 | 4,030 | 3,068 | 22,336 | (7,266) |
| **NONOPERATING REVENUES (EXPENSES)** | | | | | |
| Intergovernmental revenue | 4,662 | - | - | 4,662 | - |
| Investment income | 7,403 | 467 | 298 | 8,168 | - |
| Interest expense | (40,757) | (2,041) | (2,929) | (45,727) | (1) |
| Passenger facility charges | 31,434 | - | - | 31,434 | - |
| Amortization of bond issue costs | (2,206) | (72) | - | (2,278) | - |
| Loss on disposal of capital assets | - | (77) | (1,145) | (1,222) | (12) |
| Loss on defeasance of bonds | - | - | (917) | (917) | - |
| Recovery of legal judgment | - | 3,400 | - | 3,400 | 6,372 |
| Legal judgment | - | (200) | - | (200) | - |
| Miscellaneous, net | (135) | (1,153) | (153) | (1,441) | - |
| Total nonoperating revenues (expenses), net | 401 | 324 | (4,846) | (4,121) | 6,359 |
| Income before transfers and contributions | 15,639 | 4,354 | (1,778) | 18,215 | (907) |
| Transfers in | - | - | 714 | 714 | - |
| Transfers out | (5,434) | (2,349) | (150) | (7,933) | - |
| Capital contributions | 44,242 | - | - | 44,242 | - |
| Change in net assets | 54,447 | 2,005 | (1,214) | 55,238 | (907) |
| Total net assets - beginning of year | 954,416 | 133,555 | 18,479 | | (17,940) |
| Total net assets - end of year | $ 1,008,863 | 135,560 | 17,265 | | (18,847) |

Change in net assets reported for business-type activities in the government-wide statement of activities are different because:

| | |
|---|---|
| Certain internal service fund assets are included within business-type activities | (1,065) |
| Change in net assets of business-type activities - government-wide statement of activities | $ 54,173 |

See accompanying notes to basic financial statements.

**City of St. Louis, Missouri**
**Statement of Cash Flows**
**Proprietary Funds**
**For the year ended June 30, 2004**
**(dollars in thousands)**

| | Major Funds - Enterprise Funds | | | | |
|---|---|---|---|---|---|
| | **Lambert-St. Louis International Airport** | **Water Division** | **Parking Division** | **Total Enterprise Funds** | **Internal Service Funds** |
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | | | | |
| Receipts from customers and users | $ 114,233 | 40,251 | 11,846 | 166,330 | - |
| Receipts from interfund services provided | - | - | - | - | 40,803 |
| Other operating cash receipts | 894 | - | 108 | 1,002 | - |
| Payments to suppliers of goods and services | (36,238) | (13,047) | (1,227) | (50,512) | (40,495) |
| Payments to employees | (33,633) | (14,458) | (4,923) | (53,014) | (214) |
| Payments for interfund services used | (2,740) | (2,737) | - | (5,477) | - |
| Net cash provided by (used in) operating activities | 42,516 | 10,009 | 5,804 | 58,329 | 94 |
| **CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES** | | | | | |
| Transfers from other funds | - | - | 714 | 714 | - |
| Transfers to other funds | (5,434) | (2,360) | (525) | (8,319) | - |
| Cash paid for financing of retirement plan | (312) | - | - | (312) | - |
| Net cash provided by (used in) noncapital financing activities | (5,746) | (2,360) | 189 | (7,917) | - |
| **CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES** | | | | | |
| Cash collections from passenger facility charges | 31,434 | - | - | 31,434 | - |
| Receipts from federal financing assistance | 46,715 | - | - | 46,715 | - |
| Acquisition and construction of capital assets | (211,519) | (7,915) | (24,750) | (244,184) | (31) |
| Proceeds from sale of capital assets | 18 | - | 6,958 | 6,976 | - |
| Proceeds from isssuance of revenue bonds payable | - | - | 13,127 | 13,127 | - |
| Proceeds from issuance of commercial paper | 10,000 | - | - | 10,000 | - |
| Cash paid for bond issuance and underwriting costs | (770) | - | - | (770) | - |
| Principal paid on revenue bond maturities | (27,725) | (2,235) | (993) | (30,953) | - |
| Cash paid for bond refunding | (3,285) | - | (7,695) | (10,980) | - |
| Cash paid for interest | (47,906) | (1,776) | (2,788) | (52,470) | (1) |
| Other capital and financing activities | - | (1,171) | - | (1,171) | - |
| Net cash provided by (used in) capital and related financing activities | (203,038) | (13,097) | (16,141) | (232,276) | (32) |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | | | | |
| Purchase of investments | (2,699,282) | (135,721) | (16,043) | (2,851,046) | - |
| Proceeds from sales and maturities of investments | 2,819,136 | 136,534 | 22,778 | 2,978,448 | - |
| Investment income | 12,494 | 480 | 404 | 13,378 | - |
| Net cash provided by (used in) investing activities | 132,348 | 1,293 | 7,139 | 140,780 | |
| Net increase (decrease) in cash and cash equivalents | (33,920) | (4,155) | (3,009) | (41,084) | 62 |
| Cash and cash equivalents: | | | | | |
| Beginning of year: | | | | | |
| Unrestricted | 7,981 | 2,082 | 4,981 | 15,044 | - |
| Restricted | 140,975 | 6,239 | 7,052 | 154,266 | - |
| | 148,956 | 8,321 | 12,033 | 169,310 | - |
| End of year: | | | | | |
| Unrestricted | 9,355 | 2,292 | 2,842 | 14,489 | 62 |
| Restricted | 105,681 | 1,874 | 6,182 | 113,737 | - |
| | $ 115,036 | 4,166 | 9,024 | 128,226 | 62 |
| Reconciliation of operating income (loss) to net cash provided by (used in) operating activities: | | | | | |
| Operating income (loss) | $ 15,238 | 4,030 | 3,068 | 22,336 | (7,266) |
| Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities: | | | | | |
| Depreciation and amortization | 30,468 | 4,445 | 1,761 | 36,674 | 21 |
| Recovery of legal judgment | - | - | - | - | 6,372 |
| Changes in assets and liabilities: | | | | | |
| Receivables, net | 935 | (1,216) | (10) | (291) | (10) |
| Inventories | 163 | (38) | - | 125 | - |
| Other assets, net | (157) | - | 5 | (152) | (6) |
| Accounts payable and accrued liabilities | (220) | 1,636 | 120 | 1,536 | 40 |
| Accrued salaries and other benefits | 37 | 103 | 87 | 227 | - |
| Claims payable | - | - | - | - | (9,143) |
| Deferred revenue | (5,992) | 218 | 20 | (5,754) | - |
| Due to/from other funds | (275) | (276) | 413 | (138) | 10,074 |
| Deposits held for others | - | 32 | - | 32 | - |
| Other long term liabilities | 2,319 | 1,075 | 340 | 3,734 | 12 |
| Total adjustments | 27,278 | 5,979 | 2,736 | 35,993 | 7,360 |
| Net cash provided by (used in) operating activities | $ 42,516 | 10,009 | 5,804 | 58,329 | 94 |

See accompanying notes to basic financial statements.

**City of St. Louis, Missouri**
**Statement of Fiduciary Net Assets**
**Fiduciary Funds**
**June 30, 2004**
**(dollars in thousands)**

| | | Pension Trust Funds | Agency Funds |
|---|---|---|---|
| **ASSETS** | | | |
| Cash and cash equivalents - unrestricted | $ | 10,127 | 26,260 |
| Investments - unrestricted | | - | 10,516 |
| Pension trust investments - unrestricted: | | | |
| U. S. government securities | | 90,012 | - |
| Corporate bonds | | 107,049 | - |
| Domestic bond funds | | 73,503 | |
| Stocks | | 774,462 | - |
| Foreign government obligations | | 18,860 | - |
| Mortgage-backed securities | | 95,674 | - |
| FHA mortgages | | 29 | - |
| Collective investment funds | | 181,692 | - |
| Money market mutual funds | | 37,004 | - |
| Managed international equity funds | | 55,474 | - |
| Total pension trust investments | | 1,433,759 | - |
| Receivables, net of allowances: | | | |
| Taxes | | - | 16,723 |
| Contributions | | 14,431 | - |
| Accrued interest | | 3,425 | - |
| Other | | 10,340 | 205 |
| Prepaid expenses | | 7 | - |
| Capital assets | | 459 | - |
| Total assets | | 1,472,548 | 53,704 |
| **LIABILITIES** | | | |
| Accounts payable and accrued liabilities | | 1,708 | 345 |
| Deposits held for others | | 42 | 29,069 |
| Due to other governmental agencies | | - | 24,290 |
| Other liabilities | | 21,441 | - |
| Total liabilities | | 23,191 | 53,704 |
| **NET ASSETS** | | | |
| Net assets held in trust for pension benefits | $ | 1,449,357 | - |

See accompanying notes to basic financial statements.

**City of St. Louis, Missouri**
**Statement of Changes in Fiduciary Net Assets**
**Fiduciary Funds**
**For the year ended June 30, 2004**
**(dollars in thousands)**

| | Pension Trust Funds |
|---|---|
| **ADDITIONS** | |
| Contributions: | |
| Members | $ 6,991 |
| Employers | 37,792 |
| Investment income: | |
| Interest and dividends | 29,682 |
| Net appreciation in fair value of investments | 169,646 |
| | 199,328 |
| Less investment expense | (5,080) |
| Net investment income | 194,248 |
| Total additions | 239,031 |
| **DEDUCTIONS** | |
| Benefits | 89,332 |
| Refunds of contributions | 3,240 |
| Administrative expense | 2,397 |
| Total deductions | 94,969 |
| Net increase | 144,062 |
| Net assets held in trust for pension benefits: | |
| Beginning of year | 1,305,295 |
| End of year | $ 1,449,357 |

See accompanying notes to basic financial statements.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of St. Louis, Missouri (the City) is a constitutional charter City not a part of any county, which is organized and exists under and pursuant to the constitution and laws of the State of Missouri (the State). The City's current form of government is provided for in its charter, which first became effective in 1914 and has been subsequently amended by City voters. The City provides a wide range of municipal services as follows: fire and other public safety; parks and recreation; forestry; health, welfare, and other social services; street maintenance; refuse collection; public services; community and economic development; convention and tourism; and general administrative services. The City also owns and operates a water utility, parking facilities, and an international airport as self-supporting enterprises.

The accounting policies and financial reporting practices of the City conform to accounting principles generally accepted in the United States of America applicable to governmental entities. The following is a summary of the more significant policies:

a. Reporting Entity

The City's financial reporting entity has been determined in accordance with governmental standards for defining the reporting entity and identifying entities to be included in its basic financial statements. The City's financial reporting entity consists of the City of St. Louis (the primary government) and its component units.

1) Blended Component Units

The component units discussed below are included in the City's reporting entity due to the significance of their operational or financial relationships with the City.

Public Facilities Protection Corporation (PFPC)

The PFPC is an internal service fund governed by a five-member board of persons in designated City positions. The PFPC is reported as if it were part of the primary government because its sole purpose is to provide the City with a defined and funded self-insurance program for claims, judgments, and other related legal matters including workers' compensation.

St. Louis Municipal Finance Corporation (SLMFC)

The SLMFC, established in 1991, is governed by a five-member board, consisting of persons in designated City positions. The SLMFC is reported as if it were part of the primary government because its sole purpose is to lessen the burden on the City by financing, acquiring, leasing, or subleasing real property, and improvement thereon, and personal property to the City.

St. Louis Municipal Finance Corporation (SLMFC—II)

The SLMFC—II, established in 1993, is governed by a five-member board of persons in designated City positions. The SLMFC—II is reported as if it were part of the primary government because its sole purpose is to lessen the burden on the City by financing, acquiring, leasing, or subleasing real property, and improvements thereon, and personal property to the City.

St. Louis Parking Commission Finance Corporation (SLPCFC)

The SLPCFC, established in 2003, is governed by a five-member board as appointed by the Parking Commission. The SLPCFC finances the purchase of and owns, leases and sells certain real property on behalf of the Parking Commission. SLPCFC is considered to be a component unit of the City because the Parking Division of the City is financially accountable for SLPCFC, as it appoints all of SLPCFC's directors and is able to impose its will on SLPCFC. The SLPCFC provides services entirely to the Parking Division and is reported as if it were part of the Parking Division because its sole purpose is to lessen the burden on the Parking Division by coordinating real property transactions.

2) Discretely Presented Component Units

The component units columns in the statement of net assets and statement of activities include the financial data of the City's four discretely presented component units. These are reported individually to emphasize that they are legally separate from the City.

St. Louis Development Corporation (SLDC)

The SLDC was organized in 1988 to improve the efficiency and effectiveness of the economic development activity of the City. SLDC combined the administrative staffs of six independent development agencies for the purpose of coordinating administrative services for all six agencies. The agencies that are considered component units of SLDC are the Land Reutilization Authority, the Land Clearance for Redevelopment Authority (LCRA), the St. Louis Industrial Development Authority, the Planned Industrial Expansion Authority, the Local Development Company, and the St. Louis Port Authority. SLDC is included as a component unit of the City because the City is financially accountable for SLDC, as SLDC is fiscally dependent upon the City.

The Metropolitan Police Department of the City of St. Louis, Missouri (SLPD)

The SLPD, established by state statute, is administered by a five-member board of commissioners, the mayor, and four members appointed by the governor. The City is obligated to provide a minimum level of funding for the operations of the SLPD. SLPD's operating budget is prepared and submitted to the City for approval. SLPD has no authority to levy a tax or issue debt in its name and, therefore, is fiscally dependent on the City for substantially all of its funding.

Harry S. Truman Restorative Center, City Counselor, Receiver (HSTRC)

The HSTRC is a 220-bed skilled nursing facility operated as a not-for-profit entity supported by the City and located in a City-owned building. Under court-ordered receivership, the City has administrative responsibility for HSTRC and appoints a voting majority of HSTRC's advisory board. This advisory board consists of one representative from each of the offices of the mayor, comptroller, president of the board of aldermen, and the city counselor (the Receiver), as well as two executive employees of HSTRC. The City is able to impose its will on HSTRC.

The dissolution of HSTRC and plan of liquidation was announced on March 13, 2003. HSTRC continued operations until the last resident was discharged on May 9, 2003. Activities relating to the operations of HSTRC ceased on May 31, 2003. The accompanying financial statements of HSTRC were therefore valued on a liquidation basis and are as of May 31, 2004.

Solid Waste Management and Development Corporation (SWMDC)

The SWMDC owns a system of underground pressurized steam transport pipe in the downtown St. Louis area commonly known as the "steam loop." The steam loop is leased on a long-term basis to a steam-generating private entity unrelated to the City. The steam loop serves City Hall and other municipal buildings, and is the only non-private source of steam in downtown St. Louis. The City appoints a voting majority of SWMDC's board of directors. The board of directors consists of representatives of the president of the Board of Public Service (Chairperson), deputy mayor/chief of staff, and director of the Street Department. Separate financial statements are not prepared for SWMDC. SWMDC is directed by employees of the City and, therefore, the City is able to impose its will on SWMDC.

Complete financial statements of the discretely presented component units other than SWMDC may be obtained from their administrative offices as follows:

St. Louis Development Corporation
1015 Locust Street
St. Louis, Missouri 63101

Harry S. Truman Restorative Center
c/o City Counselor's Office
City Hall
1200 Market Street
St. Louis, Missouri 63103

The Metropolitan Police Department of the City of St. Louis, Missouri
1200 Clark Avenue
St. Louis, Missouri 63103

3) Related Organizations

The City's officials are also responsible for appointing the voting majority of board members for other organizations, but the City's accountability for these organizations does not extend beyond making the appointments. Thus, no financial data for these organizations are included in the City's basic financial statements. These related organizations include the Mental Health Board, the St. Louis

Housing Authority, the St. Louis Office for Mental Retardation & Developmental Disability Resources, and the St. Louis Public Library.

4) Joint Venture

St. Louis Regional Convention and Sports Complex Authority (Authority)

The Authority, established in 1990 as a separate legal entity by an Act of the Missouri State legislature, is governed by an 11-member board of commissioners. The mayor of the City and the county executive of St. Louis County, Missouri (the County) each appoint three members and the governor of the State appoints the remaining five commissioners. The Authority is considered a joint venture of the City, County, and State because the three governments have entered into a contractual agreement with the Authority to sponsor the issuance of convention facility bonds, to repay the facility bonds through rental payments to the Authority, and to make annual preservation payments for facility maintenance and renovations, all of which create an ongoing financial responsibility of the City. The Authority is subject to joint control of the City, County, and State. Complete financial statements for the Authority can be obtained from the Authority's administrative offices at 901 North Broadway, St. Louis, Missouri 63101.

b. Government-wide and Fund Financial Statements

The government-wide financial statements (that is, the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the City and its component units. The effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on charges for services. Likewise, the City is reported separately from certain legally separate component units for which the City is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include 1) charges for services to customers or applicants who purchase, use, or directly benefit from good, services, or privileges provided by a given function and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes, unrestricted interest earnings, gains, and other miscellaneous revenues not properly included among program revenues are reported instead as general revenues.

Following the government-wide financial statements are separate financial statements for governmental funds, proprietary funds, and fiduciary funds. Fiduciary funds are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. The City has determined that the general fund, the capital projects fund, and the grants fund are major governmental funds. All other governmental funds are reported in one column labeled "Other Governmental Funds". The total fund balances for all governmental funds is reconciled to total net assets for governmental activities as shown on the statement of net assets. The net change in fund balance for all governmental funds is reconciled to the total change in net assets as shown on the statement of activities in the government-wide statements. The City has three enterprise funds (business-type activities): Lambert-St. Louis International Airport (Airport), Water Division, and Parking Division. Each of these enterprise funds is a major fund within the fund financial statements. Additionally, the City has three internal service funds (governmental activities): PFPC, mailroom services, and health. All internal service fund activity is combined into a single column on the proprietary fund statements, since major fund reporting requirements do not apply to internal service funds.

The fund financial statements of the City are organized on the basis of funds, each of which is considered a separate accounting entity with self-balancing accounts that comprise its assets, liabilities, fund balances/net assets, revenues and expenditures, or expenses. Governmental resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled. The various funds are summarized by type in the basic financial statements. The following fund types are used by the City:

1) Governmental Fund Types

Governmental funds are those through which most governmental functions are financed. The acquisition, uses, and balances of the City's expendable financial resources and the related liabilities (except those accounted for in proprietary funds) are accounted for through governmental funds. The measurement focus is upon determination of and changes in financial position rather than upon net income.

The following are the City's governmental major funds:

General Fund—The general fund is the general operating fund of the City. It is used to account for all financial resources except those required to be accounted for in another fund.

Capital Projects Fund—The capital projects fund is used to account for financial resources to be used for the acquisition or construction of major capital facilities, other than those financed by proprietary funds. This fund accounts for acquisition or construction of capital improvements, renovations, remodeling, and replacement for the City's major capital projects.

Grants Fund—The grants fund is a special revenue fund that is used to account for the proceeds of specific revenue sources (other than major capital projects) that are legally restricted to expenditures for specific purposes. The grants fund accounts for the majority of the City's federal grant programs received from the U.S. Department of Health and Human Services, U.S. Department of Housing and Urban Development, U.S. Department of Justice, U.S. Department of Labor, U.S. Department of Transportation, and various other federal agencies.

The other governmental funds of the City are considered nonmajor. They are special revenue funds, which account for the proceeds of specific revenue sources that are legally restricted to expenditures for specific purposes, and a debt service fund, which accounts for the accumulation of resources for, and repayment of, general obligation long-term debt principal, interest, and related costs.

2) Proprietary Fund Types

Proprietary funds are used to account for activities that are similar to those found in the private sector. The measurement focus is on the determination of net income and capital maintenance.

The following are the City's proprietary fund types:

Enterprise—Enterprise funds are used to account for operations that are financed and operated in a manner similar to private business enterprises—where the intent of the governing body is that the costs (including depreciation) of operations are financed primarily through user charges. Enterprise funds have been established for the Airport, the Water Division, and the Parking Division. The Airport is used to account for the activities of the Airport. The principal services provided are financed primarily through landing fees and terminal concession revenues. The Water Division is used to account for sale of water to the general public and the operation of the water delivery system. The Parking Division is used to account for the operation of public parking facilities and parking meters. Each of the enterprise funds is a major fund in the fund financial statements.

Internal Service—Internal service funds are used to account for the financing of goods or services provided by one department or agency to other departments or agencies of a government, or to other governments, on a cost-reimbursement basis. An internal service fund has been established for PFPC, mailroom services, and health. The PFPC fund is used to account for payment of workers' compensation and various other claims against legal actions on behalf of other funds. The mailroom services fund is used to account for mail-handling services provided to other funds. The health fund is used to account for payment of health insurance claims for participants.

In the government-wide and proprietary fund financial statements, the City applies all applicable Governmental Accounting Standards Board (GASB) pronouncements, as well as the following private-sector pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board (APB) Opinions, and Accounting Research Bulletins (ARBs) of the Committee on Accounting Procedure. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The City has elected not to follow subsequent private-sector guidance.

3) Fiduciary Fund Types

Trust and Agency—Trust and agency funds are used to account for assets held by the City in a trustee capacity or as an agent for individuals, private organizations, or other governmental units. These include pension trust funds and agency funds. Pension trust funds are accounted for and reported similar to proprietary funds. The pension trust funds account for the Firemen's Retirement System of St. Louis, Police Retirement System of St. Louis, and the Employees' Retirement System of the City of St. Louis pension benefits. Agency funds are accounted for using the accrual basis of accounting. Agency funds are custodial in nature (assets equal liabilities) and do not involve the measurement of results of operations. These funds account for activities of the collector of revenue, property tax escrow, general insurance, bail bonds, license collector, circuit clerk, and other agency operations.

c. Measurement Focus and Basis of Accounting

Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the basic financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

The government-wide financial statements are reported using the economic resources measurement focus and accrual basis of accounting, as are the proprietary fund, pension trust fund, agency fund and discretely presented component unit financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. At year-end, entries are recorded for financial reporting purposes to reflect the modified accrual basis of accounting for governmental funds types, and the accrual basis of accounting for the proprietary fund types, pension trust funds, and agency funds.

Under the modified accrual basis of accounting, revenues are recorded when both measurable and available. The term "available" is defined as collectible within the current period or soon enough thereafter to be used to pay the liabilities of the current period. For the City, available is defined as expected to be received within 60 days of fiscal year-end, except for government grants, which is within 120 of fiscal year-end. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due (that is, matured).

GASB Statement No. 33 groups nonexchange transactions into the following four classes, based upon their principal characteristics: derived tax revenues, imposed nonexchange revenues, government mandated nonexchange transactions, and voluntary nonexchange transactions.

The City recognizes assets from derived tax revenue transactions (such as city earnings and payroll taxes, sales and utilities gross receipt taxes) in the period when the underlying exchange transaction on which the tax is imposed occurs or when the assets are received, whichever occurs first. Revenues are recognized, net of estimated refunds and estimated uncollectible amounts, in the same period that the assets are recognized, provided that the underlying exchange transaction has occurred. Resources received in advance are reported as deferred revenues until the period of the exchange.

The City recognizes assets from imposed nonexchange revenue transactions in the period when an enforceable legal claim to the assets arises or when the resources are received, whichever occurs first. Revenues are recognized in the period when the resources are required to be used or the first period that use is permitted. The City recognizes revenues from property taxes, net of estimated refunds and estimated uncollectible amounts, in the period for which the taxes are levied. Imposed nonexchange revenues also include permits, court fines, and forfeitures.

Intergovernmental revenues, representing grants and assistance received from other governmental units, are generally recognized as revenues in the period when all eligibility requirements, as defined by GASB Statement No. 33, have been met. Any resources received before eligibility requirements are met are reported as deferred revenues.

Charges for services in the governmental funds, which are exchange transactions and are, therefore, not subject to the provisions of GASB Statement No. 33, are recognized as revenues when received in cash because they are generally not measurable until actually received.

Under the accrual basis of accounting used by the proprietary fund types and pension trust funds, revenues are recognized when earned and expenses are recognized when incurred. Unbilled service revenues are accrued by the Airport and Water Division based on estimated billings for services provided through the end of the current fiscal year.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Airport enterprise fund are revenues from airlines, concessions, and parking. Transactions that are capital-, financing-, or investing-related are reported as nonoperating revenues. The principal operating revenues of the Water Division enterprise fund, the Parking Division enterprise fund, and internal service funds are charges to customers for sales and services. All expenses related to operating the Airport enterprise fund are reported as operating expenses. Interest expense, financing costs, and miscellaneous expenses are reported as nonoperating expenses. Operating expenses for the Water Division enterprise fund, the Parking Division enterprise fund, and internal service funds include the cost of sales and services, administrative expenses, and depreciation and amortization. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first and then unrestricted resources as they are needed.

For the pension trust funds, under the accrual basis of accounting, contributions are recognized in the period in which the contributions are due and benefits are recognized when they become due and payable.

d. Property Taxes

Taxes are levied annually in November based on the assessed valuation of all real and personal property located in the City as of the previous January 1. The City tax rate levied in November 2003 was $1.5623 per $100 of assessed valuation of which $1.411 is for the general fund and $.1513 is for the debt service fund. Taxes are billed in November and are due and collectible on December 31. All unpaid taxes become delinquent on January 1 of the following year and attach as an enforceable lien on the related property at that date.

e. Cash and Investments

The City treasurer maintains a cash and investment pool that is available for use by all funds including certain component units, except pension trust funds. In accordance with the City's budget ordinance the majority of investment income is considered earned by the general fund except for earnings otherwise legally restricted for a specific purpose. Income from investments associated with one fund is not assigned to another fund for other than legal or contractual reasons. In addition, cash and investments are separately maintained by other City officials, several of the City's departments and third-party trustee and fiscal agents.

Investments are recorded at fair value. Fair values for investments are determined by closing market prices at year-end as reported by the investment custodian. Mortgages are valued on the basis of future principal and interest payments and are discounted at prevailing interest rates for similar instruments.

f. Inventories

Purchase of materials and supplies in the governmental fund types are charged to expenditures as incurred. Amounts of inventories in such funds are immaterial. For the enterprise fund type, inventories are recorded at cost using a method that approximates the first-in, first-out method or the moving average cost method, and the expense is recognized when inventories are consumed in operations.

g. Capital Assets

1) Governmental Activities Capital Assets

Capital assets, which include buildings, improvements, equipment, and infrastructure assets (for example, roads, bridges, docks, promenade, traffic signals, and similar items), are reported in the governmental activities column in the government-wide financial statements, net of accumulated depreciation. Capital assets are defined by the City as assets with an estimated useful life in excess of one year with an initial, individual cost of $5 or more, infrastructure with a cost of $500 or more, building improvements with a cost of $100 or more, and all land, land improvements, and buildings.

Purchased or constructed capital assets are reported at cost or estimated historical cost. Donated capital assets are recorded at their estimated fair market value at the date of donation. General infrastructure assets acquired prior to July 1, 2001 consist of the road network and other infrastructure assets that were acquired or that received substantial improvements subsequent to June 30, 1980 and are reported at estimated historical cost using deflated replacement cost. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend the assets' lives are not capitalized.

The City has determined that all works of art and historical treasures other than the City's statues, monuments, and fountains meet the definition of a collection and, accordingly, has not capitalized these assets. A collection is defined as:

- Held for public exhibition and education;
- Protected, cared for, and preserved; and
- Subject to an organizational policy that requires the proceeds from the sale to be used to acquire other items for the collection.

The City has adopted a policy related to the sale of these assets, stating that the proceeds from the sale of any City-owned collections, in part or in its entirety, will be used for the acquisition of collection items.

All City-owned statues, monuments, and fountains are capitalized at their historic cost based upon original acquisition or construction documents or estimates of original costs. Because of the nature of these assets and the manner in which the City maintains its historic treasures, these assets are considered inexhaustible and, therefore, are not subject to depreciation.

Depreciation, including depreciation recognized on assets acquired through government grants and other aid, is computed on the straight-line method over the estimated useful lives of the various classes of assets, except for roads, which is computed using the composite method. The estimated useful lives of depreciable capital assets are as follows:

| | Years |
|---|---|
| Buildings | 40 |
| Improvements other than buildings | 20 to 40 |
| Equipment | 5 to 15 |
| Infrastructure | 18 to 50 |

2) Business-type Activities Capital Assets

Capital assets for the Airport, Water Division, Parking Division, and mailroom are reported in the business-type activities column in the government-wide financial statements, net of accumulated depreciation.

(dollars in thousands)

3) Airport

Capital assets are recorded at cost. Depreciation, including depreciation recognized on assets acquired through government grants and other aid, is computed on the straight-line method over the estimated useful lives of the various classes of assets. Land is recorded at cost that, in addition to the purchase price, includes appraisal and legal fees, demolition, and homeowner relocation costs. Net interest costs on funds borrowed to finance the construction of capital assets are capitalized and amortized over the life of the related asset. The estimated useful lives of depreciable capital assets are as follows:

| | Years |
|---|---|
| Pavings | 18 to 25 |
| Buildings and facilities | 20 to 30 |
| Equipment | 2 to 20 |

4) Water Division

Capital assets were originally recorded in the accounts in 1958, and were based on an engineering study of the historical cost of properties constructed by employees of the Water Division. Accumulated depreciation at the date the assets were recorded was established after a review by a consulting firm.

Additions to capital assets subsequent to 1958 are recorded at historical cost. Provisions for depreciation of capital assets are computed on a straight-line basis over the estimated useful lives of the assets and are charged to operating expenses. The estimated useful lives of depreciable capital assets are as follows:

| | Years |
|---|---|
| Buildings and structures | 44 to 55 |
| Reservoirs | 44 to 55 |
| Boiler plant equipment | 44 to 55 |
| Pumping equipment | 28 to 44 |
| Purification basins and equipment | 50 to 100 |
| Water mains, lines, and accessories | 50 to 100 |
| Equipment | 5 to 25 |
| Motor vehicle equipment | 5 |

Net interest costs on funds borrowed to finance the construction are capitalized and depreciated over the life of the related asset.

5) Parking Division

Capital assets are recorded at historical cost, including applicable interest incurred during the construction period. Donated capital assets are recorded at estimated fair market value at the date of donation. The contributions are reflected as capital contributions. Depreciation is computed using the straight-line method over the estimated useful lives of the various classes of assets. The estimated useful lives of depreciable capital assets are as follows:

| | Years |
|---|---|
| Buildings and parking garages | 20 to 40 |
| Equipment | 5 to 15 |
| Parking meters and lot equipment | 5 to 10 |

6) Mailroom

Capital assets are recorded at historical cost. Depreciation is computed using the straight-line method over the estimated useful lives of the various classes of assets. The estimated useful life of equipment, other than computer equipment, is 10 years. The estimated useful life of computer equipment is five years.

7) Component Unit—SLDC

SLDC's property, plant, equipment, and infrastructure with useful lives of more than one year are stated at historical cost. Historically, SLDC maintained infrastructure asset records consistent with all other capital assets. Donated assets are stated at fair market value on the date donated. SLDC generally capitalizes assets with costs of $2,500 (not in thousands) or more as purchase and construction outlays occur. The costs of normal maintenance and repairs that do not add to the asset value or materially extend useful lives are not capitalized. Capital assets are depreciated using the straight-line method. When capital assets are disposed, the cost and applicable accumulated depreciation are removed from the respective accounts, and the resulting gain or loss is recorded in operations. Estimated useful lives, in years, for depreciable assets are as follows:

| | Years |
|---|---|
| Buildings and structures | 40 |
| Improvements other than buildings (includes infrastructure) | 3 to 15 |
| Furniture, fixtures, and equipment | 5 to 10 |

8) Component Unit—SLPD

Capital assets are capitalized at cost or estimated historical cost. Donated capital assets are valued at estimated fair market value as of the date received. Major outlays for capital assets and improvements are capitalized as projects are constructed. All capital assets over the capitalization levels are depreciated. SLPD's capitalization threshold is $5.

Depreciation is computed using the straight-line method (with the ½-year convention election applied in the first and last year) over the following estimated useful lives:

| | Years |
|---|---|
| Buildings and improvements | 50 to 100 |
| Furniture and fixtures and other equipment | 5 |
| Automotive equipment | 3 |
| Communication equipment | 5 |
| Computer and software | 3 |
| Aircraft | 6 |

9) Component Unit—SWMDC

Capital assets are capitalized at cost. Depreciation is computed using the straight-line method over the estimated useful lives to the depreciable capital assets. The estimated useful lives of infrastructure is 30 to 40 years.

h. Long-term Liabilities

In the government-wide financial statements and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets/statement of fund net assets.

i. Passenger Facility Charges (PFCs)

The Airport collects a $4.50 (in dollars) facility charge per enplaned passenger to fund approved Federal Aviation Administration (FAA) projects. The PFC is withheld by the respective airlines for each ticket purchased and passenger transfer made in St. Louis and remitted to the Airport one month after the month of receipt, less an $.08 (in dollars) per ticket operating fee retained by the airlines. As information pertaining to PFC activity is not available to the Airport prior to receipt of PFC remittances from the airlines, PFC revenue is recognized as received, and is classified as nonoperating revenue.

j. Capital Contributions

Capital contributions to the proprietary fund type represent government grants and other aid used to fund capital projects. Capital contributions are recognized as revenue when the expenditure is made and amounts become subject to claim for reimbursement. Amounts received from other governments by the proprietary fund type, which are not restricted for capital purposes, are reflected as nonoperating intergovernmental revenue.

k. Capitalization of Interest

Net interest costs on funds borrowed to finance the construction of capital assets are capitalized and depreciated over the life of the related asset for business-type activities and proprietary fund types. Interest is not capitalized for governmental activities or governmental fund types.

l. Amortization

In government-wide financial statements and the proprietary fund types in the fund financial statements, bond discounts are recorded as a reduction of the debt obligation, bond premiums are recorded as an addition to the debt obligation, and bond issuance costs are recorded as a deferred charge. Such amounts are amortized using the interest method or bonds-outstanding method over the term of the related revenue bonds. The deferred amount on refunding is amortized as a component of interest expense over the remaining life of the bonds using the bonds-outstanding method.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources, while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

m. Compensated Absences

The City grants vacation to full-time and part-time employees who work 50% of full-time or more based on years of continuous service. Compensatory time is granted to certain employees for hours worked in excess of a normal week that are not taken within the current bi-weekly pay period. These benefits are allowed to accumulate and carry over, with limitations, into the next calendar year and will be paid to employees upon departure from service for any reason. The entire accrued benefit liability related to the City's compensated absences has been recorded in the government-wide financial statements and in the proprietary funds in the fund financial statements. Certain amounts have been recorded in the governmental fund financial statements, since such amounts came due (that is, matured) during the fiscal year ended June 30, 2004.

Nonuniformed employees retiring after June 30, 2001 who have an unused sick leave balance may, at retirement, elect to receive payment for one-half of the sick leave balance. As an estimate of the portion of sick leave that will result in termination payments, a liability has been recorded on the government-wide financial statements and the proprietary funds in the fund financial statements representing one-half of the accumulated sick leave balances for those employees who will be eligible to retire within five years.

Component Unit—SLPD

Banked overtime is granted to certain employees for hours worked in excess of their normal workday that are not taken within the current bi-weekly pay period. Banked overtime is allowed to accumulate up to 40 hours and will be paid to employees upon resignation, retirement, or death.

Vacation is granted to all full-time employees based on years of continuous service.

Both commissioned and civilian employees accumulate sick leave hours and will be paid a minimum of 25% of their unused sick leave upon termination of employment. The liability for accrued sick leave pay has been calculated using the vesting method. Commissioned and civilian employees retiring from SLPD with 1600+ hours of sick leave accrued and 20+ years of service will be paid 25% of their unused sick leave plus one additional month's salary. Commissioned employees retiring from SLPD with 2200+ hours of sick leave accrued and 30+ years of service will be paid 50% of their unused sick leave. Civilian employees retiring from SLPD with 2200+ hours of sick leave accrued and 85 points (years of service plus age) or age 65 will be paid 50% of their unused sick leave.

n. Encumbrances

Within the governmental fund financial statements, fund balance is reserved for outstanding encumbrances, which serves as authorization for expenditures in the subsequent year. Of encumbrances outstanding at year-end, $7,470 will remain in force and will be liquidated under the current year's budget and $42,935 will automatically be reappropriated and re-encumbered as part of subsequent year budgets.

o. Interfund Transactions

In the fund financial statements, the City has the following types of transactions among funds:

1) Transfers

Legally authorized transfers are reported when incurred as transfers in by the recipient fund and as transfers out by the disbursing fund.

2) Interfund Services Provided/Used

Charges or collections for services rendered by one fund for another are recognized as revenues (interfund services provided) of the recipient fund and expenditures or expenses (interfund services used) of the disbursing fund. These transactions are recorded as interfund services because they would be treated as revenues and expenditures or expenses if they involved organizations external to the City.

Within the accompanying activity from the statement of activities, direct expenses are not eliminated from the various functional categories. Indirect expenses are eliminated from the various functional categories.

Certain internal payments are treated as program revenues, such as internal services provided and used. Certain internal payments are treated as a reduction of expense, such as reimbursements.

Elimination of interfund activity has been made for governmental activities in the government-wide financial statements.

p. Reserved Fund Balance

Within the governmental fund financial statements, reserved fund balance represents the portion of fund balance that is not available for subsequent year appropriation and is legally segregated for a specific future use. In addition to encumbrances, reserved fund balances at June 30, 2004 are comprised of the following:

1) General Fund

Cash and investments with trustees to be used for debt service related to the Convention Center, the Kiel Site Project, the Argyle, Kiel and $7^{th}$ and Pine parking garages, Civil Courts, Justice Center, Carnahan Courthouse, and Firemen's System Revenue Bonds.

2) Capital Projects Fund

Cash and investments with trustees to be used for debt service and construction related to the Forest Park Redevelopment, Justice Center construction, and Carnahan Courthouse construction. Reserved fund balance also includes proceeds of capital improvement sales tax restricted for construction.

3) Other Governmental Funds

Cash and investments with a trustee to be used for debt service of tax increment financing bonds and notes payables and other bond principal payments.

q. Statement of Cash Flows

For the purpose of the statement of cash flows, cash and cash equivalents are defined as all highly liquid investments (including restricted assets) with a maturity of three months or less at the date of purchase.

r. Use of Estimates

The preparation of the basic financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the basic financial statements, and the reported amounts of revenue, expenses, and expenditures during the reporting period. Actual results could differ from those estimates.

s. Individual Fund Deficit

At June 30, 2004, the grants fund has a deficit fund balance of $62. This amount will be offset by future revenues. Additionally, the PFPC internal service fund and the health internal service fund have deficit net assets of $11,053 and $7,797, respectively. These accumulated deficits will be offset by charges for services to other funds in future years.

2. DEPOSITS AND INVESTMENTS

a. Primary Government

While certificates of deposit are defined as investments for the statement of net assets/balance sheet/statement of fund net assets classification and cash flow purposes, for custodial risk disclosure they are shown as deposits. In addition, money market mutual funds are classified as cash deposits (for all funds except pension trust funds) on the statement of net assets/balance sheet/statement of fund net assets, but as investments for custodial risk disclosure.

At year-end, the carrying amount of cash deposits was $249,119 and the bank balances totaled $254,894. Of the bank balance, $1,601 was insured by the Federal Depository Insurance Corporation (FDIC), $247,582 was covered by collateral held by the pledging bank's trust department or agent in the City's name, and $5,711 was covered by collateral held by the pledging bank's trust department or agent in the pledging bank's name.

State statutes and City investment policies authorize the deposit of funds in financial institutions and trust companies. For City funds other than pension trust funds, investments may be made in obligations of the United States Government or any agency or instrumentality thereof, or bonds of the State or any city within the state with a population of 400,000 inhabitants or more, certificates of deposit, commercial paper, bankers acceptances, money market mutual funds, or state investment pools, provided that no such investment shall be purchased at a price in excess of par. In addition, the City may enter into a repurchase agreement maturing and becoming payable within 90 days secured by United States Treasury obligation or obligations of the United States Government agencies or instrumentalities, of any maturity, as provided by law. Pension trust funds are authorized to invest in the following:

- United States Government securities;
- Non-U.S. fixed income securities;
- Common stocks of corporations organized under the laws of the United States;
- Common stocks of foreign corporations through commingle fund investments;
- Publicly issued corporation bonds, debentures, notes, or other evidence of indebtedness assumed or guaranteed by corporations organized under the laws of the United States with ratings of "A" or better by Moody's Investors Service; and
- Short-term securities with a maximum maturity of one year including institutional liquid assets, United States Treasury obligations, federal agency obligations, discount and interest-bearing notes from corporations, and certificates of deposit.

The Employees' Retirement System permits its investment manager to utilize financial derivative instruments such as forwards, futures, and options. The use of these financial derivatives is defensive in nature, that is, used only to manage duration and foreign currency exposure and bond exposure. Open currency exposure shall not exceed 10 percent of the global fixed income portfolio. As of September 30, 2003, the system had a net liability of $1,119 and a net asset of $77 (cost $0) based on current market values.

The Firemen's Retirement System of St. Louis, a pension trust fund (the Firemen's System), participates in securities lending programs in order to enhance investment yield. In a securities lending transaction, the Firemen's System transfers possession—but not title—of the security to the borrower. Collateral consisting of cash, letter of credit, or government securities is received and held by a financial institution. The collateral maintained is at least 100% of the market value of the securities lent. The Firemen's System maintains all the rights in the collateral of a secured lender under the Uniform Commercial Code. The Firemen's System continues to earn income on the loaned security. In addition, the Firemen's System receives 60% of the net lending fees generated by each loan of securities. At the Firemen's System's fiscal year end, $42,247 in loans were outstanding to borrowers. The Firemen's System earned income of $91 for its participation in the securities lending program for the year ended August 31, 2003.

The Police Retirement System of St. Louis, a pension trust fund (the Police System), participates in securities lending programs in order to enhance investment yield. In a securities lending transaction, the Police System transfers possession—but not title—of the security to the borrower. Collateral consisting of cash, letter of credit, or government securities is received and held by a financial institution. The broker/dealer collateralizes their borrowing (usually in cash) to 102% of the security value plus accrued interest and this collateral is adjusted daily to maintain the 102% level. The Police System maintains all the rights in the collateral of a secured lender under the Uniform Commercial Code. The Police System continues to earn income on the loaned security. In addition, the Police System receives 70% of the net lending fees generated by each loan of securities. The financial institution receives the remaining 30% of the net lending fees as compensation for its services provided in the securities lending program. The financial institution indemnifies operational risk and counter-party risk. The Police System authorizes the lending of domestic securities, U. S. Treasuries, corporate bonds, and equities. The Police System does not have the ability to pledge or sell collateral securities without borrower default. Therefore, for accounting purposes, the financial statements do not reflect an increase in assets or liabilities associated with securities lent. At September 30, 2003, outstanding loans to borrowers were $75,330. The Police System earned income of $98 for its participation in the securities lending program for the year ended September 30, 2003.

City funds in the form of cash on deposit or certificates of deposit are required to be insured or collateralized by authorized investments held in the City's name. Actual investment decisions are made by the City treasurer, City comptroller, circuit clerk, and the City's trustees and fiscal agents.

(dollars in thousands)

The City's investments are categorized below to give an indication of the level of custodial credit risk assumed at year-end. Category 1 includes investments that are insured or registered, or for which the securities are held by the City or its agent in the City's name. Category 2 includes uninsured and unregistered investments for which the securities are held by a counter party's trust department or agent in the City's name. Category 3 includes uninsured and unregistered investments for which the securities are held by a counter party, or by its trust department or agent, but not in the City's name.

| | Category | | | Total Carrying Value |
|---|---|---|---|---|
| | 1 | 2 | 3 | |
| Investments: | | | | |
| U.S. Government agency securities | $ – | 414,248 | 20,408 | 434,656 |
| Commercial paper | – | 7,480 | – | 7,480 |
| Pension trust funds investments: | | | | |
| U.S. Government securities | – | – | 90,012 | 90,012 |
| Corporate bonds | – | – | 180,552 | 180,552 |
| Stocks | – | – | 774,462 | 774,462 |
| Foreign government obligation | – | – | 18,860 | 18,860 |
| Mortgage-backed securities | – | – | 95,674 | 95,674 |
| | $ – | 421,728 | 1,179,968 | 1,601,696 |
| Money market mutual funds | | | | 78,219 |
| Pension trust funds investments: | | | | |
| FHA mortgages | | | | 29 |
| Collective investment funds | | | | 181,692 |
| Money market mutual funds | | | | 37,004 |
| Managed international equity funds | | | | 55,474 |
| Total investments (excluding certificates of deposit)—primary government | | | | $ 1,954,114 |

(dollars in thousands)

The following is a reconciliation of the City's deposit and investment balances of June 30, 2004:

| | | Cash and Investments | Investments | Restricted Assets | Total |
|---|---|---|---|---|---|
| Bank deposits | $ | 59,095 | 119,062 | 70,962 | 249,119 |
| Investments | | 23,623 | 1,423,883 | 506,608 | 1,954,114 |
| | $ | 82,718 | 1,542,945 | 577,570 | 2,203,233 |

| | | Government-wide Statement of Net Assets | Fiduciary Funds Statement of Fiduciary Net Assets | Total |
|---|---|---|---|---|
| Cash and cash equivalents | $ | 46,331 | 36,387 | 82,718 |
| Investments | | 98,670 | 1,444,275 | 1,542,945 |
| Restricted assets (noncurrent) | | 577,570 | – | 577,570 |
| | $ | 722,571 | 1,480,662 | 2,203,233 |

b. Component Unit—SLDC

At June 30, 2004, the carrying amount of SLDC's cash deposits was $10,554 and the bank balance was $12,718. Of the bank balance, $850 was covered by federal depository insurance and $11,868 was covered by collateral held by the pledging institution's trust department or agent in SLDC's name.

State statutes and SLDC investment policies are the same as for the primary government. SLDC funds, in the form of cash on deposit or certificates of deposit, are required to be insured or collateralized by authorized investments held in SLDC's name.

SLDC's investments are categorized below to give an indication of the level of custodial credit risk assumed at June 30, 2004. These categories are the same as for the primary government.

| | | Category | | | Total Carrying Value |
|---|---|---|---|---|---|
| | | 1 | 2 | 3 | |
| Stock | $ | – | 27 | – | 27 |

At June 30, 2004, the fair value of all investments approximates the carrying amount.

c. Component Unit—SLPD

At June 30, 2004, the carrying amount of SLPD's cash deposits was $433 and the bank balances were $643. Of the bank balances, $139 was insured by the FDIC and the remainder was covered by collateral pledged by financial institutions and held by the financial institution's trust department or the Federal Reserve Bank in SLPD's name.

(dollars in thousands)

State statutes and City investment policies are the same as for the primary government. SLPD funds in the form of cash on deposit or time certificates of deposit are required to be insured or collateralized by authorized investments held in SLPD's name. Actual investment decisions are made by the director of budget and finance, the board of police commissioners, and SLPD's fiscal agents.

SLPD's investments are categorized below to give an indication of the level of custodial credit risk assumed at June 30, 2004. These categories are the same as for the primary government.

| | Category | | | Total Carrying Value |
|---|---|---|---|---|
| | 1 | 2 | 3 | |
| Investments: | | | | |
| Federal home loan note | $ – | 2,513 | – | 2,513 |
| U.S. Government agencies | 12 | – | – | 12 |
| Total investments | $ 12 | 2,513 | – | 2,525 |
| Mutual fund: | | | | |
| Fidelity treasury mutual fund | | | | 671 |
| | | | | $ 3,196 |

d. Component Unit—HSTRC

At May 31, 2004, the carrying amount of HSTRC's cash deposits was $10 and was insured by the FDIC.

e. Component Unit—SWMDC

At June 30, 2004, the carrying amount and bank balance of SWMDC's cash deposits was $741. Of the bank balance, $100 was insured by the FDIC and $641 was uncollateralized.

SWMDC's investments of $669 at year-end consisted entirely of U.S. Government securities, and were held by the bank's trust department in SWMDC's name (category 2).

(dollars in thousands)

3. RECEIVABLES, NET

| | | Taxes | Intergovern-mental | Charges for Services | Notes and Loans | Other | Total Receivables |
|---|---|---|---|---|---|---|---|
| **Governmental activities:** | | | | | | | |
| General fund | $ | 80,152 | 2,051 | 2,715 | — | 890 | 85,808 |
| Capital projects fund | | 2,650 | 4,862 | — | — | — | 7,512 |
| Grants fund | | — | 8,721 | — | — | — | 8,721 |
| Other governmental funds | | 20,338 | 234 | 2,351 | 186 | — | 23,109 |
| Internal service funds | | — | — | 10 | — | — | 10 |
| Total governmental activities | $ | 103,140 | 15,868 | 5,076 | 186 | 890 | 125,160 |
| **Business-type activities:** | | | | | | | |
| Airport | $ | — | 6,491 | 12,953 | — | 1,076 | 20,520 |
| Water Division | | — | — | 5,809 | — | — | 5,809 |
| Parking Division | | — | — | 63 | — | — | 63 |
| Total business-type activities | $ | — | 6,491 | 18,825 | — | 1,076 | 26,392 |

All amounts are scheduled for collection during the subsequent fiscal year.

4. ALLOWANCE FOR UNCOLLECTIBLE ACCOUNTS

The allowance for uncollectible accounts, which has been deducted from the related receivable in the government-wide statement of net assets and fund financial statements, consists of the following balances:

| | | |
|---|---|---|
| **Governmental activities:** | | |
| Taxes receivable—general fund | $ | 1,043 |
| Taxes receivable—other governmental funds | | 149 |
| Charges for services receivable—other governmental funds | | 37 |
| **Business-type activities:** | | |
| Charges for services receivable—Airport | | 422 |
| Charges for services receivable—Water Division | | 2,348 |
| | $ | 3,999 |

5. COMPONENT UNIT—SLDC RECEIVABLES

SLDC receivables consist principally of Small Business Administration (SBA) loans and various other commercial loans made to third parties to facilitate development activities. The commercial loans were financed utilizing funds provided by the Community Development Agency (CDA) of the City, the Economic Development Administration, and the State of Missouri. The proceeds from any repayment of these loans are payable back to the funding source. Thus, a corresponding liability has been recorded.

(dollars in thousands)

6. RESTRICTED ASSETS

a. Airport

Cash and investments, restricted in accordance with City ordinances and bond provisions, are as follows at June 30, 2004:

| | | |
|---|---|---|
| Airport bond fund: | | |
| Debt service account | $ | 66,918 |
| Debt service reserve account | | 63,609 |
| Airport renewal and replacement fund | | 3,500 |
| Passenger facility charge fund | | 13,002 |
| Airport development fund | | 58,910 |
| Airport construction fund | | 281,986 |
| Airport contingency fund | | 1,959 |
| | $ | 489,884 |

City ordinances require that revenues derived from the operation of the Airport be deposited into the unrestricted Airport revenue fund. From this fund, the following allocations are made (as soon as practicable in each month after the deposit of revenues but no later than five business days before the end of each month) in the following order of priority:

1) Unrestricted Airport operation and maintenance fund: an amount sufficient to pay the estimated operation and maintenance expenses during the next month.

2) Airport bond fund: for credit to the debt service account if and to the extent required so that the balance in said account shall equal the accrued aggregate debt service on the bonds, to the last day of the then current calendar month. This account shall be used only for payment of bond principal and interest as the same shall become due.

3) Airport bond fund: for credit to the debt service reserve account: an amount sufficient to maintain a balance in such account equal to the debt service reserve requirement (an amount equal to the greatest amount of principal and interest due in any future fiscal year). This account shall be available for deficiencies in the debt service account on the last business day of any month, and the balance shall be transferred to the debt service account whenever the balance in the debt service account (before the transfer) is not sufficient to fully pay all outstanding bonds.

4) Airport renewal and replacement fund: an amount equal to $57; provided that no deposit shall be required to be made into said fund whenever and as long as uncommitted monies in said fund are equal to or greater than $3,500 or such larger amount as the City shall determine is necessary for purposes of said fund; and provided further that, if any such monthly allocation to said fund shall be less than the required amounts, the amount of the next succeeding monthly payments shall be increased by the amount of such deficiency. This fund shall be used for paying costs of renewal or replacement of capital items used in connection with the operation of the Airport.

(dollars in thousands)

5) A subaccount in the Airport revenue fund: an amount determined from time-to-time by the City, such that if deposits were made in amounts equal to such amount in each succeeding month during each Airport fiscal year, the balance in such subaccount shall equal the amounts payable to the City with respect to such Airport fiscal year for the payment of 5% of gross receipts from operations of the Airport. A maximum of 80% of the monthly transfer to this subaccount may be paid to the City during the Airport's fiscal year. The final installment may only be paid to the City upon delivery of the Airport's audited financial statements to the Airport bond fund trustee.

6) Airport contingency fund: an amount determined at the discretion of Airport management, to be used for the purchase or redemption of any bonds; payments of principal or redemption price of interest on any subordinated debt; improvements, extensions, betterments, renewals, replacements, repairs, maintenance, or reconstruction of any properties or facilities of the Airport; or the provision of one or more reserves. These funds can also be used for any other corporate purpose of the Airport, the local airport system, or other local facilities that are owned or operated by the City and are directly related to the actual transportation of passengers or property.

7) The remaining balance in the revenue fund shall be deposited into the Airport development fund. This fund shall be used for extensions and improvements to the Airport, including equipment acquisition.

City ordinances provide that, in the event the sum on deposit in the Airport bond fund—debt service and debt service reserve accounts are insufficient to pay accruing interest, maturing principal or both, the balance in the Airport contingency fund, Airport development fund, and Airport renewal and replacement fund may be drawn upon, to the extent necessary, to provide for the payment of such interest, principal, or both. Any sums so withdrawn from these accounts for said purposes shall be restored thereto in the manner provided for in their original establishment. City ordinances also provide that the principal proceeds from the sale of Airport revenue bonds shall be held in the Airport construction fund from which they shall be disbursed for the purposes contemplated in these ordinances.

b. Water Division

Cash and investments restricted in accordance with City ordinances at June 30, 2004 are as follows:

| | |
|---|---|
| Bond funds: | |
| Waterworks bond and interest Account | $ 3,565 |
| Water revenue bond reserve account | 3,334 |
| Water replacement and improvement account | 689 |
| Total bond funds | 7,588 |
| Construction funds | 10,178 |
| Customer deposits | 1,354 |
| | $ 19,120 |

City ordinances require that revenues derived from the operation of the Waterworks System be deposited in the waterworks revenue account. From this account, the following allocations are made on the first business day of each month in the following order of priority:

1) <u>1994 Water Revenue Bond Funds</u>

   1) To the unrestricted waterworks operations and maintenance account, an amount sufficient to pay the estimated operation and maintenance expenses during the next month.

   2) To the waterworks bond and interest account, an amount at least equal to one-sixth of the amount of interest that will come due on the next interest payment date, plus an amount at least equal to one-twelfth of the aggregate principal amount of bonds that will come due on the next bond maturity date. This account is to be used only for the payments of bonds principal and interest, as the same shall become due.

   3) To the water revenue bond reserve account, a sum equal to the maximum principal and interest coming due on any fiscal year on the bonds.

   4) To the water replacement and improvement account, an amount equal to $25 per month until the account balance aggregates $700. This account shall be used for making replacements, extensions, and improvements to the waterworks system, and for the purpose of meeting unforeseen contingencies and emergencies arising in the operation of the waterworks system of the City.

   5) The remaining balance in the waterworks revenue fund is to be deposited into the unrestricted water contingent account. This account shall be used for paying the cost of the operation, maintenance, and repair of the waterworks system; paying the cost of extending, improving, or making replacements to the waterworks system; preventing default in, anticipating payments into, or increasing the amounts in the other accounts; paying any gross receipts tax now or hereafter levied by the City; paying the principal or the interest on any subordinate or junior lien bonds; paying any redemption premium due on the bonds; or any other lawful purpose for use by the waterworks system.

2) <u>1998 Water Revenue Bond Funds</u>

   To the Water Revenue Bond Reserve Account, a sum equal to the maximum principal and interest coming due in any fiscal year on the bonds.

3) <u>Construction Funds</u>

   City ordinances also provide that the principal proceeds from the sale of Series 1994 Revenue Bonds and amounts appropriated from the water contingent account shall be held in the construction fund from which they shall be disbursed for the purposes contemplated in these ordinances.

(dollars in thousands)

4) Customer Deposits

City ordinances provide that amounts paid by customers as deposits on water meters, construction and unclaimed meter deposits be held in escrow until such time as they are returned to customers in the form of cash or as a credit on the applicable customer's water bill.

5) Service Line Maintenance

In accordance with a City ordinance, the Water Division collects a $3.00 (in dollars) per quarter surcharge from flat-rate and metered residential customers having six or less dwelling units. These funds are deposited in the service line maintenance account. This account, including interest earned, is used to pay for the repair of certain portions of the water lines for these customers.

c. Parking Division

Cash and investments restricted in accordance with revenue bond indentures at June 30, 2004 are as follows:

| | | |
|---|---|---|
| Series 2002, 1999, 1998, and 1996 bonds: | | |
| Debt service reserve | $ | 5,543 |
| Construction | | 653 |
| Debt service | | 874 |
| Parking trust—Parking Division accounts | | 4,514 |
| Total series 2002, 1999, 1998 and 1996 bonds | | 11,584 |
| Series 2003A and 2003B bonds: | | |
| Gross revenues | | 131 |
| Bond | | 99 |
| Repair and replacement | | 5 |
| Operating reserve | | 100 |
| Redemption | | 35 |
| Total series 2003A and 2003B bonds | | 370 |
| | $ | 11,954 |

The June 30, 2004 restricted assets are required by the Series 2003A, 2003B, 2002, 1999, 1998, and 1996 bond indentures. Descriptions of the above funds required by the Series 2002, 1999, 1998, and 1996 Bond indentures are as follows:

1) Debt service reserve—Maintains funds from the proceeds of the respective bond series to be available to pay principal of and interest on the respective bonds if other funds are not available.

2) Construction—Used to pay construction costs to complete the respective projects.

3) Debt service – Monies deposited into this account pay principal and accrued and unpaid interest on the respective bonds.

4) Parking trust—Parking Division accounts – Maintains funds transferred from the respective bond account to be available to pay principal and interest on the respective refunded bonds if other funds are not available.

The Series 1999, 1998, and 1996 Bond indentures specify how funds are to be deposited into these restricted accounts. Payment for the bonds will be made first from net project revenues. The treasurer is required to collect on a daily basis all net project revenues and, by the 10th business day of each month, the treasurer is required to deposit into the treasurer's parking facilities debt service account such net project revenues in the following order of priority, first for transfer to the trustee for deposit (a) into the debt service fund for each series of bonds outstanding the amount of monies required to meet the debt service requirements for such series for at least one bond year; (b) into the debt service reserve fund for each series of bonds outstanding amounts, if any, required to cure any deficiency in such debt service reserve fund; (c) into the series account in the parking trust fund for each series of bonds outstanding to repay, on a pro rata basis, but subject to the Indenture, any amounts drawn from the Parking Division account in the parking trust fund and the TVB account in the parking trust fund in connection with with bonds; and (d) into the treasurer's parking facilities renewal and replacement account to the extent required in the indenture. If there are insufficient net project revenues to make the payments provided herein as the same become due, a pro rata amount shall be deposited for each series of bonds and the treasurer shall pay out of the net project revenues received by the treasurer during the next succeeding months, to the extent there are surplus funds remaining after the required deposits for such months, such sums as are necessary to make up such shortfalls.

The Series 2002 Bonds are subordinated bonds, meaning that Parking Division revenues are applied to the Series 2002 Bond accounts only after the other bond accounts have been satisfied. Payment for the Series 2002 Bonds will be made first from net project revenues. The treasurer is required to collect on a daily basis all receipts from the financed facilities and deposit such funds in the treasurer's parking facilities subordinated revenue account. By the 10th day of each month, net project revenues attributable to the financed facilities, on a modified cash basis, for the preceding month, shall be transferred to the trustee for deposit in the net project revenues account of the revenue fund. Promptly upon receipt, the trustee shall transfer monies held in the net project revenues account, first, to the interest account of the debt service fund until the amount on deposit in such account equals the amount required to pay interest on the bonds on the next interest payment date and, second, to the principal account of the debt service fund until the amount on deposit therein equals the amount required to pay the principal of, including any redemption premium related to, the bonds on the next principal payment date which is not more than one year after the date of deposit. Any monies remaining after such deposits shall be transferred, first, to the debt service reserve fund until the amount on deposit therein is equal to the debt service reserve fund requirement, second, to the special reserve fund, if and to the extent required by the indenture, third, to the treasurer's parking facilities subordinated renewal and replacement account, until the amount on deposit therein is equal to the amount (if any) established by the treasurer based on the recommendation of a consultant selected by the Parking Commission of the City of St. Louis and any monies remaining thereafter shall then be released to the treasurer free and clear of the lien of the indenture.

Descriptions of the funds required by the Series 2003A and 2003B bond indenture are as follows:

1) Gross Revenues—Maintains revenues resulting from the operations of the Cupples Garage and uses these to pay the operating and debt service costs associated with the Cupples Garage.

2) Bonds— Monies deposited into this account pay principal and accrued and unpaid interest on the Series 2003A and 2003B Bonds.

3) Repair and Replacement—Provides for the repair and upkeep of the Cupples Garage.

4) Operating Reserve—Maintains operating reserve as required by the Bond indenture.

5) Redemption—Maintains funds set aside for the future redemption of the Series 2003A and 2003 Bonds.

As specified by the Series 2003A and 2003B bond indenture, the revenues from the operation of the Cupples Garage are deposited into the Gross Revenues Fund. By the 25th of each month, the Trustee is required to first pay from the Gross Revenue Fund all operating expenses associated with the Cupples Garage, all rent for surface lots surrounding the Cupples Garage, and all fees due to the Trustee. Secondly, the Trustee is required to transfer from the Gross Revenues Fund to the Bond Fund an amount equal to the debt service required to be paid on the next interest payment date for the Series 2003A and 2003B Bonds. Thirdly, the Trustee is required to transfer 1% of the gross revenues received during the month to the Repair and Replacement Fund, provided that the balance in the Repair and Replacement Fund does not exceed $250,000. Fourthly, the Trustee is required to transfer from the Gross Revenue Fund to the Operating Reserve Fund any amount necessary to bring the Operating Reserve Fund to the $100,000 balance required by the Bond indenture. Fifthly, the Trustee is required to transfer 75% of the remaining balance in the Gross Revenue Fund to the Redemption Fund. Finally, the Trustee is required to transfer any remaining balance in the Gross Revenue Fund to the Parking Division as a management fee.

(dollars in thousands)

d. Component Unit—SLDC

Restricted cash and investments at June 30, 2004 are as follows:

| | | |
|---|---|---|
| Bond funds | $ | 2,097 |
| Interest trust | | 331 |
| | $ | 2,428 |

Cash and investments restricted in accordance with the SLDC Parking Facilities Revenue Refunding Bonds, Series 1999, Bond Indenture consist of a bond reserve account in the amount of $2,097.

The revenue bond indenture requires that gross operating revenues be paid to the bond trustee for deposit in the parking facility fund. From this fund, the revenues are to be applied by the trustee to various reserve accounts including principal and interest, repair and replacement, and operating reserve up to specified limits.

SLDC is also required to maintain on deposit at a bank in an interest trust account a minimum amount based on an outstanding loan balance. Any deficiency in the balance is required to be replaced within 30 days. At June 30, 2004, the balance in the interest trust account was $331.

(dollars in thousands)

7. CAPITAL ASSETS

a. Primary Government

The following is a summary of changes in capital assets—governmental activities for the year ended June 30, 2004:

| | | Balance June 30, 2003 | Additions | Retirements | Transfers | Balance June 30, 2004 |
|---|---|---|---|---|---|---|
| **Governmental activities:** | | | | | | |
| *Capital assets not being depreciated:* | | | | | | |
| Land | $ | 77,545 | 2 | (159) | — | 77,388 |
| Construction in progress | | 91,321 | 38,065 | — | (43,742) | 85,644 |
| Works of art | | 2,341 | 137 | — | 326 | 2,804 |
| Total capital assets not being depreciated | | 171,207 | 38,204 | (159) | (43,416) | 165,836 |
| *Capital assets being depreciated:* | | | | | | |
| Buildings | | 369,548 | 11,573 | (2,465) | 12,781 | 391,437 |
| Improvements other than buildings | | 27,909 | 27,125 | — | 14,480 | 69,514 |
| Equipment | | 94,823 | 2,529 | (2,598) | — | 94,754 |
| Infrastructure | | 358,966 | 4,606 | — | 16,155 | 379,727 |
| Total capital assets being depreciated | | 851,246 | 45,833 | (5,063) | 43,416 | 935,432 |
| *Less accumulated depreciation for:* | | | | | | |
| Buildings | | 80,713 | 9,600 | (298) | — | 90,015 |
| Improvements other than buildings | | 12,268 | 1,661 | — | — | 13,929 |
| Equipment | | 33,752 | 11,899 | (1,940) | — | 43,711 |
| Infrastructure | | 165,187 | 11,671 | — | — | 176,858 |
| Total accumulated depreciation | | 291,920 | 34,831 | (2,238) | — | 324,513 |
| Total capital assets being depreciated, net | | 559,326 | 11,002 | (2,825) | 43,416 | 610,919 |
| Governmental activities capital assets, net | $ | 730,533 | 49,206 | (2,984) | — | 776,755 |

Construction in progress consists primarily of Firehouse renovations and improvements at Forest Park.

(dollars in thousands)

The following is a summary of changes in capital assets—business-type activities for the year ended June 30, 2004. Business-type activities for the City include the Airport, Water Division, and Parking Division.

| | Balance June 30, 2003 | Additions | Retirements | Transfers | Balance June 30, 2004 |
|---|---|---|---|---|---|
| **Business-type activities:** | | | | | |
| **Combined:** | | | | | |
| *Capital assets not being depreciated:* | | | | | |
| Land | $ 761,667 | 46,454 | (624) | — | 807,497 |
| Construction in progress | 281,226 | 174,335 | — | (65,065) | 390,496 |
| Total capital assets not being depreciated | 1,042,893 | 220,789 | (624) | (65,065) | 1,197,993 |
| *Capital assets being depreciated:* | | | | | |
| Buildings and structures | 435,345 | 11,799 | (12,000) | 25,719 | 460,863 |
| Equipment | 68,027 | 6,425 | (5,247) | 955 | 70,160 |
| Pavings | 281,075 | 3,427 | (18,692) | 37,726 | 303,536 |
| Parking meters and lot equipment | 4,447 | 824 | — | — | 5,271 |
| Reservoirs | 34,169 | 47 | — | 177 | 34,393 |
| Boiler plant equipment | 661 | — | — | — | 661 |
| Pumping equipment | 8,404 | — | — | 11 | 8,415 |
| Purification basins and equipment | 37,457 | 57 | — | 431 | 37,945 |
| Water mains, lines, and accessories | 99,122 | 3,984 | (22) | 46 | 103,130 |
| Motor vehicle equipment | 8,335 | 818 | (834) | — | 8,319 |
| Total capital assets being depreciated | 977,042 | 27,381 | (36,795) | 65,065 | 1,032,693 |
| *Less accumulated depreciation for:* | | | | | |
| Buildings and structures | 232,444 | 15,989 | (6,209) | — | 242,224 |
| Equipment | 43,007 | 4,504 | (3,402) | — | 44,109 |
| Pavings | 184,605 | 9,227 | (19,808) | — | 174,024 |
| Parking meters and lot equipment | 2,972 | 315 | — | — | 3,287 |
| Reservoirs | 4,659 | 658 | — | — | 5,317 |
| Boiler plant equipment | 609 | 3 | — | — | 612 |
| Pumping equipment | 7,167 | 151 | — | — | 7,318 |
| Purification basins and equipment | 8,605 | 720 | — | — | 9,325 |
| Water mains, lines, and accessories | 44,303 | 1,231 | (12) | — | 45,522 |
| Motor vehicle equipment | 4,541 | 596 | (767) | — | 4,370 |
| Total accumulated depreciation | 532,912 | 33,394 | (30,198) | — | 536,108 |
| Total capital assets being depreciated, net | 444,130 | (6,013) | (6,597) | 65,065 | 496,585 |
| Business-type activities capital assets, net | $ 1,487,023 | 214,776 | (7,221) | — | 1,694,578 |

Construction in progress consists primarily of various improvements at the Airport to the airfield and terminal buildings, as well as property purchased on which the Airport's expansion facilities will be constructed.

(dollars in thousands)

Within the statement of activities, depreciation expense is charged to functions of the primary government as follows:

| | | |
|---|---|---|
| **Governmental activities:** | | |
| General government | $ | 4,923 |
| Convention and tourism | | 4,247 |
| Parks and recreation | | 2,614 |
| Judicial | | 344 |
| Streets | | 19,720 |
| Public safety: | | |
| Fire | | 1,562 |
| Other | | 770 |
| Health and welfare | | 415 |
| Public service | | 236 |
| Total depreciation expense, governmental activities | $ | 34,831 |
| **Business-type activities:** | | |
| Airport | $ | 27,297 |
| Water Division | | 4,445 |
| Parking Division | | 1,652 |
| Total depreciation expense, business-type activities | $ | 33,394 |

(dollars in thousands)

b. Component Unit—SLDC

The following is a summary of changes in SLDC capital assets for the year ended June 30, 2004:

| | | Balance June 30, 2003 | Additions | Retirements | Balance June 30, 2004 |
|---|---|---|---|---|---|
| Capital assets not being depreciated: | | | | | |
| Land | $ | 4,914 | — | — | 4,914 |
| Total capital assets not being depreciated | | 4,914 | — | — | 4,914 |
| Capital assets being depreciated: | | | | | |
| Leasehold improvements | | 3,000 | — | — | 3,000 |
| Equipment | | 643 | — | — | 643 |
| Parking facilities | | 18,897 | — | — | 18,897 |
| Total capital assets being depreciated | | 22,540 | — | — | 22,540 |
| Less accumulated depreciation for: | | | | | |
| Leasehold improvements | | 500 | 200 | — | 700 |
| Equipment | | 626 | 8 | — | 634 |
| Parking facilities | | 7,414 | 637 | — | 8,051 |
| Total accumulated depreciation | | 8,540 | 845 | — | 9,385 |
| Total capital assets being depreciated, net | | 14,000 | (845) | — | 13,155 |
| SLDC capital assets, net | $ | 18,914 | (845) | — | 18,069 |

(dollars in thousands)

c. Component Unit − SLPD

The following represents a summary in SLPD's capital assets for the year ended June 30, 2004:

| | | Balance June 30, 2003 | Additions | Retirements | Balance June 30, 2004 |
|---|---|---|---|---|---|
| *Capital assets not being depreciated:* | | | | | |
| Land | $ | 1,646 | — | — | 1,646 |
| Total capital assets not being depreciated | | 1,646 | — | — | 1,646 |
| *Capital assets being depreciated:* | | | | | |
| Buildings and improvements | | 32,242 | 129 | — | 32,371 |
| Furniture and fixtures and other equipment | | 2,546 | 395 | (531) | 2,410 |
| Automotive equipment | | 7,644 | 1,467 | (583) | 8,528 |
| Communications equipment | | 4,639 | — | — | 4,639 |
| Computers and software | | 1,543 | 1,089 | (145) | 2,487 |
| Aircraft | | 258 | — | — | 258 |
| Total capital assets being depreciated | | 48,872 | 3,080 | (1,259) | 50,693 |
| *Less accumulated depreciation for:* | | | | | |
| Buildings and improvements | | 14,949 | 482 | — | 15,431 |
| Furniture and fixtures and other equipment | | 1,794 | 268 | (447) | 1,615 |
| Automotive equipment | | 5,010 | 1,636 | (530) | 6,116 |
| Communications equipment | | 3,521 | 324 | — | 3,845 |
| Computers and software | | 1,085 | 415 | (140) | 1,360 |
| Aircraft | | 182 | 44 | — | 226 |
| Total accumulated depreciation | | 26,541 | 3,169 | (1,117) | 28,593 |
| Total capital assets being depreciated, net | | 22,331 | (89) | (142) | 22,100 |
| SLPD capital assets, net | $ | 23,977 | (89) | (142) | 23,746 |

d. Component Unit—HSTRC

In October 2004, the HSTRC was sold resulting in proceeds of $260 for HSTRC's furniture, equipment, and bed license. (Refer to note 27f.) The Receiver represents $60 of the sale proceeds relate to the furniture and equipment which are recorded as "assets held-for-sale" at May 31, 2004, in the amount of $50, and are classified as other assets on the accompanying statement of net assets. The remaining proceeds of $200 relate to the sale of HSTRC's bed license. HSTRC never recorded the license as an asset.

(dollars in thousands)

e. Component Unit—SWMDC

| | | Balance June 30, 2003 | Additions | Retirements | Balance June 30, 2004 |
|---|---|---|---|---|---|
| *Capital assets being depreciated:* | | | | | |
| Infrastructure | $ | 7,546 | 9 | — | 7,555 |
| Total capital assets being depreciated | | 7,546 | 9 | — | 7,555 |
| *Less accumulated depreciation for:* | | | | | |
| Infrastructure | | 1,923 | 238 | — | 2,161 |
| Total accumulated depreciation | | 1,923 | 238 | — | 2,161 |
| SWMDC capital assets, net | $ | 5,623 | (229) | — | 5,394 |

8. COMPONENT UNIT—SLDC PROPERTY HELD FOR DEVELOPMENT

SLDC property held for development consists primarily of land and property held for sale or other development purposes. This land and property is reported in SLDC's financial statements based on management's intent of ultimate disposition of the property. Proceeds received upon the sale of most of these properties will revert back to the funding source. At June 30, 2004, SLDC has established a reserve for impairment of $5,841 on its properties held for development.

9. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

| | | Vendors | Contracts and Retainage Payable | Total |
|---|---|---|---|---|
| Government activities: | | | | |
| General fund | $ | 3,218 | 119 | 3,337 |
| Capital projects fund | | — | 7,971 | 7,971 |
| Grants fund | | 12,035 | — | 12,035 |
| Other governmental funds | | 1,066 | — | 1,066 |
| Internal service | | 460 | — | 460 |
| Total governement activities | $ | 16,779 | 8,090 | 24,869 |
| Business-type activities: | | | | |
| Airport | $ | 2,640 | 27,376 | 30,016 |
| Water Division | | 3,146 | — | 3,146 |
| Parking Division | | 168 | 223 | 391 |
| Total business-type activities | $ | 5,954 | 27,599 | 33,553 |

(dollars in thousands)

## 10. RETIREMENT PLANS

The City contributes to three defined benefit retirement plans. The Firemen's Retirement System of St. Louis (Firemen's System) and the Police Retirement System of St. Louis (Police System) are single-employer plans. The Employees' Retirement System of the City of St. Louis (Employees' System) is a cost-sharing multiple-employer plan. However, due to the City's participation in the Employees' System being greater than 99% of the total participation of all employers, the disclosures provided for the Employees' System are those for a single-employer plan. Each system is administered by a separate board of trustees, who are partially appointed by City officials, plan participants, and the governor of the State (Police System only). For financial reporting purposes, these retirement systems are included as fiduciary pension trust funds of the City. Financial information for these funds has been included within the accompanying basic financial statements as of each System's fiscal year-end, which falls within the City's current fiscal year-end as follows:

| System | System Fiscal Year End |
|---|---|
| Firemen's | August 31, 2003 |
| Police | September 30, 2003 |
| Employees' | September 30, 2003 |

### a. *Firemen's Retirement System of St. Louis*

#### 1) System Description

All firefighters qualify as members of the Firemen's System and are thereby eligible to participate from their date of hire.

The Firemen's System issues a publicly available financial report that includes financial statements and supplementary information. That information may be obtained by writing to the Firemen's Retirement System of St. Louis; 1601 South Broadway, St. Louis, Missouri, 63104.

Firefighters may elect voluntary retirement after 20 or more years of service. The monthly allowance consists of 40% of the final two-year average monthly compensation at 20 years of service, plus 2% of such final average compensation for each of the next five years of service, plus 5% of final average compensation for each additional year of service over 25 years with a maximum pension of 75%. Unused accrued sick pay may increase the maximum pension beyond the 75% limitation.

The Firemen's System also provides death and disability benefits. Benefits vest after 20 years of service. Such benefits are authorized by State statues and adopted by City ordinance.

The Firemen's System, in accordance with Ordinance 62994 of the City, initiated during the Firemen's System's fiscal year ended August 31, 1994 the Deferred Retirement Option Plan (DROP). The DROP is available to members of the Firemen's System who have achieved at least 20 years of creditable service and have eligibility for retirement. Those members who elect to participate will continue active employment, will have a service retirement allowance credited monthly into the DROP account of the member and the member's contribution will be reduced to 1% from the normal 8%. During participation in the DROP, the member will not receive credit for City contributions or credit for service. A member may participate in the DROP only once for any period up to five years. At retirement, the funds in the member's DROP account plus interest and accrued sick leave, if elected, is available to the member in a lump sum or in installments.

(dollars in thousands)

2) Funding Policy

Firefighters are required to contribute 8% of their compensation to the Firemen's System, as mandated per State statute and adopted by City ordinance. The City is required to contribute the remaining amounts necessary to fund the Firemen's System. Members of the Firemen's System are entitled to a lump-sum distribution of the entire amount of their contribution without interest upon service retirement. Members whose employment terminates prior to retirement are entitled to a lump-sum distribution of their contribution, plus interest thereon.

3) Annual Pension Cost and Net Pension Asset

The City's annual pension cost and net pension asset to the Firemen's System for the year ended June 30, 2004 are as follows:

| | |
|---|---|
| Annual required contribution | $ (4,289) |
| Interest on net pension asset | 1,836 |
| Adjustment to annual required contribution | (2,064) |
| Annual pension cost | (4,517) |
| Contributions made | 2,078 |
| Decrease in net pension asset | (2,439) |
| Net pension asset, beginning of year | 24,086 |
| Net pension asset, end of year | $ 21,647 |

The net pension asset of $21,647, as of June 30, 2004, is reflected as a net pension asset within governmental activities in the government-wide financial statements.

Historical trend information about the City's participation in the Firemen's System is presented below to help readers assess the Firemen's System's funding status on a going-concern basis and assess progress being made in accumulating assets to pay benefits when due.

| Fiscal Year | Annual Pension Cost (APC) | Percentage of APC Contributed | Net Pension Asset |
|---|---|---|---|
| 2004 | $ 4,517 | 46% | $ 21,647 |
| 2003 | 3,595 | 94 | 24,086 |
| 2002 | 3,756 | 94 | 24,316 |

(dollars in thousands)

Significant actuarial assumptions used in the valuation of the Firemen's System are as follows:

| | |
|---|---|
| Date of actuarial valuation | September 1, 2003 |
| Actuarial cost method | Entry age-frozen liability method |
| Amortization method | 30 years from establishment, closed-period |
| Remaining amortization period | Various |
| Asset valuation method | 3-year smooth market |
| Inflation rate | 3.500%, per year |
| Investment rate of return | 7.625%, compounded annually |
| Projected salary increases | 4.500%, per year to retirement age |
| Projected postretirement benefit increases | 5.000% |

4) Lawsuit

The Firemen's System has filed a lawsuit against the City and the Board of Estimate and Apportionment to require the City to contribute the actuarially determined annual contribution for the retirement system. The City Counselor's Office has determined there is a reasonable possibility that a loss contingency may be incurred for a range of $5,500 to $6,900.

b. *Police Retirement System of St. Louis*

1) System Description

All persons who become police officers and all police officers that enter or reenter SLPD after October 1, 1957 become members of the Police System and are thereby eligible to participate from their date of hire. The Police System issues a publicly available financial report that includes financial statements and supplementary information. That information may be obtained by writing to the Police Retirement System of St. Louis; One South Memorial Drive, Suite 600; St. Louis, Missouri, 63102-2447.

Police officers may elect voluntary retirement after 20 or more years of credited service regardless of age or upon attaining age 55. The monthly allowance consists of 40% of the two-year (three-year prior to October 1, 2001) average final compensation for the first 20 years of service, plus 2% of such final average compensation for each of the next five years of service, plus 4% of average final compensation for each additional year of service after 25 years up to a maximum of 30 years. The monthly allowance of members who have at least 30 years of service is increased by 5%. The maximum pension is 75% of average final compensation. The Police System also provides death and disability benefits. Benefits vest after 20 years of service. Such benefits are established by State statute.

During the Police System year ended September 30, 1996, deferred retirement option plan (DROP) benefit provisions were added. The DROP option is available to members of the Police System who have at least 20 years of creditable service and have achieved eligibility for retirement. Those members who elect to participate will continue active employment, will have a service retirement allowance credited monthly in the DROP account, and will no longer make contributions to the Police System. During participation in the DROP, the member will not receive credit for service and the member shall not share in any benefit improvement that is enacted or becomes effective while such member is participating in the DROP. A member may participate in the DROP only once for any period up to five years. At retirement, the funds in the member's DROP account plus interest is available to the member in a lump sum or in installments.

(dollars in thousands)

2) Funding Policy

Police officers are required to contribute 7% of their compensation to the Police System per State statute. The City is required to contribute the remaining amounts necessary to fund the Police System, determined in accordance with City ordinances. Upon leaving employment due to service retirement, death, or disability due to an accident in the actual performance of duty (prior to October 1, 2001, only if 100% disabled), the member's contributions are refunded. Members whose employment terminates prior to retirement are entitled to a lump-sum distribution of their contribution plus interest thereon.

3) Annual Pension Cost and Net Pension Obligation

The City's annual pension cost and net pension obligation to the Police System for the year ended June 30, 2004 are as follows:

| | |
|---|---|
| Annual required contribution | $ (9,576) |
| Interest on net pension obligation | – |
| Adjustment to annual required contribution | – |
| Annual pension cost | (9,576) |
| Contributions made | 4,116 |
| Increase in net pension obligation | (5,460) |
| Net pension obligation, beginning of year | – |
| Net pension obligation, end of year | $ (5,460) |

The net pension obligation of $5,460 is reflected as a long-term liability within governmental activities in the government-wide financial statements.

(dollars in thousands)

Historical trend information about the City's participation in the Police System is presented below.

| Fiscal Year | Annual Pension Cost (APC) | Percentage of APC Contributed | Net Pension Obligation |
|---|---|---|---|
| 2004 | $ 9,576 | 43% | $ (5,460) |
| 2003 | – | – | – |
| 2002 | – | – | – |

Significant actuarial assumptions used in the valuation of the Police System are as follows:

| | |
|---|---|
| Date of actuarial valuation | October 1, 2003 |
| Actuarial cost method | Aggregate (this method does not identify or separately amortize unfunded actuarially accrued liabilities) |
| Asset valuation methods | 5-year smoothed average of market value |
| Inflation rate | 3.00%, per year |
| Investment rate of return | 7.75%, per year |
| Projected salary increases | 3.50 – 7.00%, varying by age |
| Projected postretirement benefit increases | 3.00% maximum per year, cumulative 30% cap |

4) Lawsuit

The Police System has filed a lawsuit against the City and the Board of Estimate and Apportionment to require the City to contribute the actuarially determined annual contribution for the Police System. The City Counselor's Office has determined there is a reasonable possibility that a loss contingency may be incurred for a range of $1,500 to $5,500.

c. *Employees' Retirement System of the City of St. Louis*

1) System Description

All nonuniformed employees of the City and certain other public entities funded by or providing services to residents of the City become members of the Employees' Retirement System upon employment with the exception of employees hired after attaining age 60.

The Employees' System issues a publicly available financial report that includes financial statements and supplementary information. That report may be obtained by writing to the Employees' Retirement System of the City of St. Louis; 1300 Convention Plaza, Suite 217; St. Louis, Missouri 63103-1935.

The Employees' System provides for defined benefit payments for retirement, death, or disability to eligible employees or their beneficiaries based upon creditable service, final average compensation, and a benefit compensation base. Benefits vest to employees covered by the Employees' System after the employee has attained five years of creditable service. The board of trustees approves all withdrawals, benefits, and termination refunds from the Employees' System's assets. Normal retirement is at age 65 or if the employee's age and creditable service combined equal or exceeds 85. Employees may retire and receive reduced benefit after age 60, with five years of creditable service; age 55, with at least 20 years of creditable service; or at any age after 30 years of creditable service.

On June 8, 2000, the mayor of the City approved an ordinance passed by the board of aldermen, which will establish a Deferred Retirement Option Plan (DROP) effective January 1, 2001. This plan states that when members reach retirement age, they are allowed to work for five additional years and defer receipt of their retirement allowance. The calculation of average salary for retirement benefits will not include the additional years of service after normal retirement age. The amount that would have been received as retirement benefit is put in a special DROP account monthly. The DROP account will not be adjusted for cost of living increases as the normal retirement benefits are. The DROP account earns interest at the actuarial valuation rate of return. After the member completely terminates employment, the member can withdraw amounts from the DROP account in a lump sum or according to a deferred retirement payment plan.

2) Funding Policy

Employer contribution rates are established annually by the board of trustees based on an actuarial study. Deductions from plan net assets are financed from plan additions. The board of trustees elected to require employer contributions at a rate of 10.31% of active member payroll effective July 2003. The City contributed 6% of active member payroll effective July 2003. Prior to July 1, 2003, the City contribution rate was 8.8%.

Employees who became members of the Employees' System prior to October 14, 1977 may make voluntary contributions to the Employees' System equal to 3% of the employee's compensation until the employee's compensation equals the maximum annual taxable earnings under the Federal Social Security Act in effect on January 1 of the calendar year. Voluntary contributions of employees who enrolled in the Employees' System after October 13, 1977 may be made up to 6% of qualified employee compensation for the remainder of the calendar year. These voluntary contributions vest immediately.

(dollars in thousands)

3) Annual Pension Cost and Net Pension Obligation

The City's annual pension cost and net pension obligation to the Employees' System for the year ended June 30, 2004, are as follows:

| | |
|---|---|
| Annual required contribution | $ (32,187) |
| Interest on net pension obligation | (873) |
| Adjustment to annual required contribution | 1,223 |
| Annual pension cost | (31,837) |
| Contributions made | 13,062 |
| Increase in net pension obligation | (18,775) |
| Net pension obligation, beginning of year | (10,907) |
| Net pension obligation, end of year | $ (29,682) |

The net pension obligation of $29,682 is reflected as a long-term liability within the accompanying basic financial statements as follows:

| | |
|---|---|
| Governmental activities | $ (21,067) |
| Business-type activities | (5,774) |
| Component unit – SLPD | (2,841) |
| | $ (29,682) |

Historical trend information about the City's participation in the Employees' System is presented below.

| Fiscal Year | Annual Pension Cost (APC) | Percentage of APC Contributed | Net Pension Obligation |
|---|---|---|---|
| 2004 | $ 31,837 | 41.03% | $ (29,682) |
| 2003 | 24,124 | 75.72 | (10,907) |
| 2002 | 17,610 | 45.32 | (5,049) |

(dollars in thousands)

Significant actuarial assumptions used in the valuation of the Employees' System are as follows:

| | |
|---|---|
| Date of actuarial valuation | October 1, 2003 |
| Actuarial cost method | Projected unit credit |
| Amortization method and remaining period | Level dollar amount for unfunded liability |
| Remaining amortization period | 16.25 years as of October 1, 2003, closed-period |
| Actuarial value of assets | The book value at beginning of year; plus 25% of the difference between market value and book for the last four years; less the member savings fund |
| Investment rate of return | 8.00% |
| Projected salary increases | 3.00% |
| Projected postretirement benefit increases | 5.00% per year, maximum cumulative increase of 25%. |

d. Component Unit—SLDC

The SLDC Employees Retirement Plan and Trust (SLDC plan) is a defined contribution plan and became effective January 1, 1989. Required year-ended June 30, 2004 contributions of $303 which amount to 9% of current covered payroll, were made by SLDC. For the year ended June 30, 2004, SLDC's current covered payroll was $3,367 and total payroll amounted to $3,507. Employees are not required to contribute to the SLDC Plan; however, they can contribute up to 5.5% of their monthly compensation if they so elect. In order to be eligible under the SLDC Plan, the participant must be a full-time employee, have attained the age of 18, and have completed at least six months of active service. The employees vest at a rate of 33% per annum with full vesting occurring after the end of their third year of service. The SLDC Plan does not hold any employer or related-party securities. All plan investments are self-directed by the respective plan participants, within the limitations of the plan.

## 11. COMPONENT UNIT—SLPD POSTEMPLOYMENT HEALTHCARE AND LIFE INSURANCE

SLPD is obligated under Chapter 84.160 RSMo to provide healthcare and life insurance benefits for former civilian and commissioned employees who retired subsequent to 1969. Currently, SLPD provides healthcare insurance for 1,244 retirees, while 1,306 retirees were provided life insurance benefits. Under the life insurance plan, retirees are obligated to pay 66 cents for every $1,000 (in dollars) of coverage on a monthly basis. SLPD covers healthcare and other life insurance benefits for participants. These costs are accounted for on a pay-as-you-go basis and the cost to SLPD of providing these benefits to retirees was $4,458 (in dollars) per retiree for healthcare and $7 (in dollars) per retiree for life insurance for the fiscal year ending June 30, 2004.

12. DEFERRED COMPENSATION PLAN

The City offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan, available to all City and SLPD employees, permits them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency.

All amounts of compensation deferred under the plan, all property and rights purchased with those amounts, and all income attributable to those amounts, property, or rights are (until paid or made available to the employees or other beneficiary) held in trust for the exclusive benefit of the employees. As such, the trust account and related liability are not included in the basic financial statements.

(dollars in thousands)

13. LONG-TERM LIABILITIES

a. Changes in Long-Term Liabilities

Following is a summary of the changes in long-term liabilities for the year ended June 30, 2004:

| | Balance June 30, 2003 | Additions | Reductions | Balance June 30, 2004 | Due Within One Year |
|---|---|---|---|---|---|
| **Governmental activities:** | | | | | |
| General obligation bonds payable | $ 54,685 | – | (2,965) | 51,720 | 3,100 |
| Section 108 Loan Guarantee Assistance Programs | 76,570 | – | (4,070) | 72,500 | 4,280 |
| Federal Financing Bank advances | 840 | – | (35) | 805 | 40 |
| Tax increment financing bonds and notes payable | 25,826 | 14,766 | (9,900) | 30,692 | 1,629 |
| Master note purchase agreement | 344 | – | (163) | 181 | – |
| Loan agreement with Missouri Department of Natural Resources | – | 1,953 | (155) | 1,798 | 324 |
| Capital lease—rolling stock | 10,984 | – | (1,973) | 9,011 | 2,132 |
| Capital leases—other | 175 | – | (85) | 90 | 90 |
| Capital leases—Obligations with component units | 11,805 | 40,000 | (385) | 51,420 | 405 |
| Leasehold revenue improvement and refunding bonds | 319,737 | – | (8,211) | 311,526 | 16,420 |
| Joint venture financing agreement | 76,493 | – | (2,951) | 73,542 | 3,061 |
| Unamortized discounts, premiums, and deferred amounts on refunding | (351) | (40) | (22) | (413) | – |
| Arbitrage rebate liability | 435 | – | (435) | – | – |
| Net pension obligation | 7,291 | 19,236 | – | 26,527 | – |
| Accrued vacation, compensatory, and sick time benefits | 24,511 | 17,938 | (16,048) | 26,401 | 17,410 |
| Landfill closure | 220 | 39 | (25) | 234 | 139 |
| Claims and judgments payable | 24,856 | 27,913 | (37,056) | 15,713 | 11,337 |
| Governmental activities long-term liabilities | $ 634,421 | 121,805 | (84,479) | 671,747 | 60,367 |

Internal service funds predominantly serve the governmental funds. Accordingly, long-term liabilities for them are included as part of the above totals for governmental activities. Also, for the governmental activities claims and judgments payable, accrued vacation, compensatory and sick leave benefits, net pension obligations, and landfill closure costs are generally liquidated by the general fund.

(dollars in thousands)

| | Balance, June 30, 2003 | Additions | Reductions | Balance, June 30, 2004 | Due Within One Year |
|---|---|---|---|---|---|
| **Business-type activities:** | | | | | |
| Airport: | | | | | |
| Revenue bonds payable | $ 961,520 | – | (31,010) | 930,510 | 35,775 |
| Net pension obligation | 1,172 | 1,815 | – | 2,987 | – |
| Other | 2,599 | 856 | (352) | 3,103 | – |
| Accrued vacation, compensatory, and sick time benefits | 4,664 | 3,288 | (3,115) | 4,837 | 4,837 |
| Unamortized discounts, premiums, and deferred amounts on refunding | (3,206) | – | 1,719 | (1,487) | – |
| Total Airport | 966,749 | 5,959 | (32,758) | 939,950 | 40,612 |
| Water Division: | | | | | |
| Revenue bonds payable | 38,920 | – | (2,235) | 36,685 | 2,365 |
| Customer deposits | 1,322 | 32 | – | 1,354 | – |
| Net pension obligation | 884 | 1,128 | – | 2,012 | – |
| Other | 501 | – | (53) | 448 | – |
| Accrued vacation, compensatory, and sick time benefits | 2,949 | 1,505 | (1,534) | 2,920 | 2,920 |
| Unamortized discounts, premiums, and deferred amounts on refunding | (1,981) | – | 315 | (1,666) | – |
| Total Water Division | 42,595 | 2,665 | (3,507) | 41,753 | 5,285 |
| Parking Division: | | | | | |
| Revenue bonds payable | 62,515 | 13,612 | (7,993) | 68,134 | 1,450 |
| Net pension obligation | 235 | 340 | – | 575 | – |
| Accrued vacation, compensatory, and sick time benefits | 146 | 321 | (300) | 167 | 167 |
| Unamortized discounts, premiums, and deferred amounts on refunding | (2,833) | – | 152 | (2,681) | – |
| Total Parking Division | 60,063 | 14,273 | (8,141) | 66,195 | 1,617 |
| Business-type activities long-term liabilities | $ 1,069,407 | 22,897 | (44,406) | 1,047,898 | 47,514 |

b. General Obligation Bonds

In June 1999, the City issued $65,000 Public Safety General Obligation Bonds, Series 1999. The series consisted of $64,305 current interest serial bonds due in the years 2000 through 2008 and 2010 through 2019 with rates ranging from 4% to 5.125%. The 2009 maturity is entirely capital appreciation bonds in the amount of $695 sold to yield 5.15% and mature at $3,655 (collectively, the “Series 1999 bonds”). The proceeds of the Series 1999 bonds are being used as follows: (i) $44,000 for new fire equipment, new fire communication equipment, reconstruction and renovation of various existing fire houses, and new construction of fire houses; (ii) $10,000 for new police laboratory equipment, reconstruction, and renovation of existing police buildings, and; (iii) $11,000 for demolition and abatement of various abandoned or condemned buildings under the control of the City. The Series 1999 bonds are payable from ad valorem taxes to be levied without limitation as to rate or amount upon all taxable, tangible property, real, and personal property within the City. The principal and interest on the Series 1999 bonds is guaranteed under a municipal bond new issue insurance policy issued by Financial Guaranty Insurance Company. Principal payments are made from other governmental funds.

(dollars in thousands)

Principal and interest requirements are as follows:

| | | Principal | Interest | Total |
|---|---|---|---|---|
| Year ending June 30: | | | | |
| 2005 | $ | 3,100 | 2,540 | 5,640 |
| 2006 | | 3,245 | 2,400 | 5,645 |
| 2007 | | 3,400 | 2,253 | 5,653 |
| 2008 | | 3,570 | 2,088 | 5,658 |
| 2009 | | 695 | 4,872 | 5,567 |
| 2010-2014 | | 16,480 | 7,998 | 24,478 |
| 2015-2019 | | 21,230 | 3,370 | 24,600 |
| | $ | 51,720 | 25,521 | 77,241 |

c. Section 108 Loan Guarantee Assistance Programs

During 2001, the City entered into contracts with the U.S. Department of Housing and Urban Development for Section 108 loan guarantee assistance for the following maximum amounts:

- $50,000 for Downtown Convention Headquarters Hotel project
- $20,000 for Darst-Webbe Housing Redevelopment project
- $10,000 for neighborhood projects

During 2001, the City issued a note in the amount of $50,000 for the Downtown Convention Headquarters Hotel project. Additionally, during 2001, the City received $5,000 in an advance funding draw for the Darst-Webbe Housing Redevelopment project. The $50,000 note is intended to spur redevelopment in the downtown area. The $50,000 note is a 20-year note at a variable rate of interest. The $5,000 received during 2001 was an advance funding draw note related to the $20,000 Darst-Webbe Housing Redevelopment project. During 2002, the City finalized each of the three loans at fixed rates ranging from 3.66% to 6.62%, and received the remaining $15,000 draw for the Darst-Webbe Housing Redevelopment project, as well as the $10,000 funding for neighborhood projects. The Darst-Webbe note is a 20-year note with final payment due in fiscal 2021.

The five-year, $10,000 note for neighborhood improvement projects will be used for housing rehabilitation, land acquisition, capital improvements, commercial district improvements, and public improvements. Final payment is due during fiscal 2007.
Principal and interest requirements for the combined Section 108 program notes are as follows:

(dollars in thousands)

| | | Principal | Interest | Total |
|---|---|---|---|---|
| Year ending June 30: | | | | |
| 2005 | $ | 4,280 | 4,207 | 8,487 |
| 2006 | | 4,550 | 3,995 | 8,545 |
| 2007 | | 4,850 | 3,756 | 8,606 |
| 2008 | | 2,740 | 3,557 | 6,297 |
| 2009 | | 2,920 | 3,402 | 6,322 |
| 2010 – 2014 | | 17,580 | 14,191 | 31,771 |
| 2015 – 2019 | | 23,830 | 7,886 | 31,716 |
| 2020 – 2021 | | 11,750 | 788 | 12,538 |
| | $ | 72,500 | 41,782 | 114,282 |

d. Federal Financing Bank Advances

Federal Financing Bank Advances represent promissory notes issued by the Federal Financing Bank to the City for redevelopment projects. These notes were issued under Section 108 of the Housing and Community Development Act of 1974. Interest is payable semiannually based on rates established by the secretary of the treasury on the dates the notes are made. These notes and the related interest will be repaid from intergovernmental revenues of the grants fund. In 1997, the City signed a new contract and loan agreement under Section 108 in the amount of $1,000. The proceeds were used to fund a portion of a multi-modal distribution center, which integrates trucking, railway, and waterway transportation and distribution channels. The loan initially consisted of 20 variable rate notes, due in July of each year, to be retired over the 20 years ending July 2016. Interest, payable semiannually and calculated monthly, is based on the variable rate of LIBOR plus 0.2%. In October 1997, the notes were changed to fixed rates with interest due in February and August of each year. The notes currently bear interest at rates ranging from 5.87% to 7.08%.

Principal and interest requirements are as follows:

| | | Principal | Interest | Total |
|---|---|---|---|---|
| Year ending June 30: | | | | |
| 2005 | $ | 40 | 53 | 93 |
| 2006 | | 40 | 51 | 91 |
| 2007 | | 45 | 48 | 93 |
| 2008 | | 50 | 45 | 95 |
| 2009 | | 50 | 42 | 92 |
| 2010 – 2014 | | 325 | 140 | 465 |
| 2015 – 2017 | | 255 | 28 | 283 |
| | $ | 805 | 407 | 1,212 |

(dollars in thousands)

e. Tax Increment Financing Bonds and Notes Payable

In 1991, the City issued $15,000 in tax increment financing bonds (Series 91 TIF Bonds) to provide funds to enable the City to acquire certain land and, upon such land, among other things, to widen and improve an existing street. Other governmental funds are used to account for the revenues, expenditures, including debt service, and other activities related to the Series 91 TIF Bonds. The Series 91 TIF Bonds constitute special obligations of the City, and are payable from payments in lieu of taxes from owners or property within the Scullin Redevelopment Tax Increment Financing Area (the 91 Area). In the event these payments are not sufficient to meet the debt service requirements, the Series 91 TIF Bonds are payable, first, from the additional tax revenue generated by increases in economic activities in the 91 Area, other than personal property tax revenue, and, second, from any monies legally available in the City's general fund. During 2004, $609 of payments in lieu of taxes and $1,316 in economic activity taxes were received. The Series 91 TIF Bonds bear interest at the rate of 10% per year, mature on August 1, 2010, and are subject to mandatory redemption prior to maturity.

Additionally, from time to time, the City issues tax increment financing bonds and notes payable to developers in conjunction with various redevelopment projects throughout the City. These are special limited obligations of the City, payable solely from the payments in lieu of taxes and increased economic activity taxes generated by the redevelopment areas. No other City monies are pledged to repay these bonds and notes and, should these financing sources be insufficient to repay the bonds and notes prior to their stated maturity dates, the City's obligation under the bonds and notes will cease. As of June 30, 2004, the City had $21,627 in tax increment financing (TIF) bonds and notes payable outstanding, at interest rates ranging from 6% to 10%, payable in various installments through 2025.

Principal and interest requirements for the tax increment financing debt issues are as follows:

| | Series 91 TIF Bonds | | TIF Bonds and Notes | |
|---|---|---|---|---|
| | **Principal** | **Interest** | **Principal** | **Interest** |
| Year ending June 30: | | | | |
| 2005 | $ 960 | 859 | 676 | 1,536 |
| 2006 | 1,055 | 758 | 818 | 1,557 |
| 2007 | 1,160 | 647 | 882 | 1,495 |
| 2008 | 1,275 | 525 | 951 | 1,429 |
| 2009 | 1,405 | 391 | 1,025 | 1,357 |
| 2010 – 2014 | 3,210 | 327 | 5,948 | 5,519 |
| 2015 – 2019 | – | – | 4,846 | 2,051 |
| 2020 – 2024 | – | – | 6,029 | 1,390 |
| 2025 | – | – | 452 | 35 |
| | $ 9,065 | 3,507 | 21,627 | 16,369 |

f. Master Note Purchase Agreement

In February 2000, the SLMFC, the City, and the Federal National Mortgage Association (Fannie Mae) entered into a Master Note Purchase Agreement (Series 2000 Note) to provide a low-interest, second mortgage for use as down payment and/or to pay other purchase costs to those who buy a single family residence in the City. The City provided a deposit of $250 into a note reserve account and SLMFC pledged all payments of interest and principal from the homeowners as payment for the Fannie Mae $1,250 loan. The SLMFC obligation is limited to the monies in the various accounts established by the agreement including the note reserve account. A trustee holds the loan proceeds to be used exclusively for the City of St. Louis Homebuyers Incentive Program (CHIPS). The program is designed to provide funding to assist homebuyers with a down payment and closing costs associated with the purchase of a home. The loan bears interest at the rate of 8.27% per annum and will mature on March 1, 2011 subject to prepayment based on the payment of the second loans to homeowners. The principal will be paid from other governmental funds. During 2003, the remaining principal of $440 relating to the Series 2000 Note was paid in full.

In November 2001, the SLMFC, the City, and Fannie Mae amended the Series 2000 Note. Under the amendment, Fannie Mae purchased a Series 2001 Note in the amount of $460 from SLMFC. The amendment required the City to provide an additional deposit of $130 into a Series 2001 Note reserve account, and required SLMFC to pledge all payments of principal and interest from the homeowners as payment for the Series 2001 Note. A portion of the proceeds of the Series 2001 Note, along with a portion of the Series 2000 Note reserve account, was used to prepay a portion of the Series 2000 Note in the amount of $650. A portion of the Series 2001 Note provided additional funds for the CHIPS. The Series 2001 Note bears interest at the rate of 5.21% per annum and will mature on December 1, 2012, subject to prepayment based upon the payment of the second loans to homeowners. As of June 30, 2004, the balance of the note outstanding is $181.

g. Loan Agreement with Missouri Department of Natural Resources

In July 2001, the City agreed to enter into a loan agreement with the Missouri Department of Natural Resources (DNR) pursuant to the Missouri Energy Efficiency Leveraged Loan Program in the amount of $2,000 at an annual interest rate of 4.35%. The proceeds of the loan are to be used to complete energy conservation measures designated as approved by the DNR. During fiscal year 2004, the City made draws of $1,953 against the loan agreement. The purpose of this funding is to convert signal lights to LED fixtures resulting in a projected savings of $395 per year in electricity costs.

In April 2003, the City agreed to enter into a second loan agreement with the DNR pursuant to the Missouri Energy Efficiency Leveraged Loan Program in the amount of $1,613 at an annual interest rate of 2.95%. The proceeds of the loan are to be used to complete energy conservation measures designated as approved by the DNR. As of June 30, 2004, the City has not drawn against the loan agreement.

(dollars in thousands)

Principal and interest requirements under the loan agreement with the Missouri Department of Natural Resources are as follows:

| | Principal | Interest | Total |
|---|---|---|---|
| Year ending June 30: | | | |
| 2005 | $ 324 | 70 | 394 |
| 2006 | 338 | 57 | 395 |
| 2007 | 352 | 43 | 395 |
| 2008 | 366 | 28 | 394 |
| 2009 | 381 | 13 | 394 |
| 2010 | 37 | 1 | 38 |
| | $ 1,798 | 212 | 2,010 |

h. Component Unit—SLDC Long-Term Liabilities

The following is a summary of changes in long-term liabilities for SLDC for the year ended June 30, 2004:

| | Balance, June 30, 2003 | Additions | Reductions | Balance, June 30, 2004 | Due Within One Year |
|---|---|---|---|---|---|
| Due to other governmental agencies | $ 9,108 | 985 | (1,802) | 8,291 | 1,071 |
| Notes payable | 12,747 | 744 | (3,561) | 9,930 | 5,760 |
| Other liabilities | 5,522 | 7,116 | (7,733) | 4,905 | 2,552 |
| Revenue bonds | 13,560 | – | (240) | 13,320 | 260 |
| | $ 40,937 | 8,845 | (13,336) | 36,446 | 9,643 |

Maturities on notes payable are as follows:

| | Principal | Interest | Total |
|---|---|---|---|
| Year ending June 30: | | | |
| 2005 | $ 5,760 | 418 | 6,178 |
| 2006 | 1,509 | 286 | 1,795 |
| 2007 | 657 | 211 | 868 |
| 2008 | 709 | 158 | 867 |
| 2009 | 766 | 101 | 867 |
| 2010 – 2011 | 529 | 40 | 569 |
| | $ 9,930 | 1,214 | 11,144 |

(dollars in thousands)

Revenue bonds outstanding at June 30, 2004 consist of LCRA Parking Facility Revenue Bonds Series 1999A (Series 1999A bonds), Parking Facility Revenue Refunding Bonds Series 1999B (Series 1999B bonds), and Parking Facility Revenue Refunding and Improvement Bonds Series 1999C (Series 1999C bonds) (Bonds). Collectively, the Bonds are dated October 21, 1999.

The Series 1999A bonds with an original issue amount of $2,470 are due at intervals until September 1, 2009. These bonds carry rates of interest ranging from 7.625% to 9.0%

The Series 1999B bonds with an original issue amount of $8,300 are due at intervals until September 1, 2019, and are payable solely from, and secured by, a pledge of gross revenues from the operation of SLDC Parking Facilities' St. Louis Centre East parking garage. The bonds may be redeemed prior to maturity at the option of LCRA and are subject to special mandatory redemption prior to maturity following the occurrence of a determination of taxability as defined in the bond indenture. These bonds carry rates of interest ranging from 6.5% to 7.0%.

The Series 1999C bonds with an original issue amount of $3,040 are due September 1, 2024. Bond proceeds are to repay an LCRA note payable and construct a parking lot on a portion of the St. Louis Centre North Garage premises. The bonds may be redeemed prior to maturity at the option of LCRA and are subject to special mandatory redemption prior to maturity following the occurrence of a determination of taxability as defined in the bond indenture. These bonds carry a rate of interest of 7.05%.

Debt service requirements to maturity for SLDC revenue bonds are as follows:

| | | Series 1999A | | Series 1999B | | Series 1999C | |
|---|---|---|---|---|---|---|---|
| | | **Principal** | **Interest** | **Principal** | **Interest** | **Principal** | **Interest** |
| Year ending June 30: | | | | | | | |
| 2005 | $ | 260 | 166 | – | 569 | – | 214 |
| 2006 | | 285 | 142 | – | 569 | – | 214 |
| 2007 | | 310 | 115 | – | 569 | – | 214 |
| 2008 | | 335 | 86 | – | 569 | – | 214 |
| 2009 | | 365 | 55 | – | 569 | – | 214 |
| 2010 – 2014 | | 425 | 19 | 2,105 | 2,544 | – | 1,072 |
| 2015 – 2019 | | – | – | 3,125 | 1,648 | – | 1,072 |
| 2020 – 2024 | | – | – | 3,070 | 107 | 1,980 | 869 |
| 2025 | | – | – | – | – | 1,060 | 37 |
| | $ | 1,980 | 583 | 8,300 | 7,144 | 3,040 | 4,120 |

(dollars in thousands)

i. Component Unit—SLPD Long-Term Liabilities

The following is a summary of changes in long-term liabilities for SLPD for the year ended June 30, 2004:

| | Balance June 30, 2003 | Additions | Deductions | Balance, June 30, 2004 | Due Within One Year |
|---|---|---|---|---|---|
| Accrued banked overtime, vacation, and sick time leave | $ 28,633 | 2,129 | (2,733) | 28,029 | 7,746 |
| Capital lease obligation | 6,511 | 39 | (1,028) | 5,522 | 1,210 |
| Workers' compensation | 24,778 | 19,849 | (5,416) | 39,211 | 5,955 |
| Net pension obligation | 1,325 | 1,516 | – | 2,841 | – |
| | $ 61,247 | 23,533 | (9,177) | 75,603 | 14,911 |

Police Patrol Buildings

In December 1987, SLPD entered into a lease-purchase agreement with the Missouri Economic Development, Export and Infrastructure Board (MEDB). In June 1994, the MEDB issued $13,725 of Leasehold Revenue Bonds, Series 1994 (SLPD Series 1994 Bonds). In February 2003, the Industrial Development Authority of the St. Louis Development Corporation (IDA) issued $6,665 in Series 2003 Leasehold Refunding Revenue Bonds (Series 2003 Bonds). Proceeds from the Series 2003 bonds were used to defease the previously issued Series 1994 Bonds.

The IDA acquired the police patrol buildings from the MEDB and leased them to SLPD in a lease purchase agreement dated February 1, 2003. Lease payments are payable from tax proceeds generated from the capital improvements sales tax, a 1/2 cent City sales tax increase approved by the voters on August 3, 1993. The Series 2003 Bonds are not legal obligations of SLPD or the City, but are to be paid by the lease payments described below:

| | Principal | Interest | Total |
|---|---|---|---|
| Year ending June 30: | | | |
| 2005 | $ 1,210 | 105 | 1,315 |
| 2006 | 1,235 | 80 | 1,315 |
| 2007 | 1,255 | 55 | 1,310 |
| 2008 | 1,945 | 21 | 1,966 |
| | $ 5,645 | 261 | 5,906 |
| Unamortized premium | 31 | | |
| Unamortized deferred amount on refunding | (154) | | |
| | $ 5,522 | | |

(dollars in thousands)

14. CAPITAL LEASES

Certain City services are provided by equipment financed under various capital lease agreements as follows:

a. Capital Lease—Rolling Stock

In March 2000, the City entered into a capital lease agreement with Banc One Leasing Corporation in the amount of $9,000 at a rate of 5.8%. Proceeds of the lease are to be used to purchase certain rolling stock such as dump trucks and refuse trucks. In September 2002, the City refinanced its existing capital lease agreement with Banc One Leasing Corporation resulting in a new balance of $7,889. This revised capital lease agreement supercedes the capital lease agreement entered into during March 2000. In addition to refinancing the existing lease, the proceeds of the lease are to be used to purchase certain rolling stock, such as dump trucks and refuse trucks, and computer software and hardware. The lease agreement payments are due in semi-annual installments from 2003 through 2009 with an annual interest rate of 3.6%.

Additionally, in June 2003, the City amended its capital lease agreement with Banc One Leasing Corporation to increase the capital lease by $4,002 in order to finance the acquisition of additional rolling stock. This portion of the capital lease is due in annual installments from 2004 through 2018 with an annual interest rate of 4.78%.

Principal payments of $1,973 were made on these lease agreements in fiscal year 2004.

| | | |
|---|---|---|
| Year ending June 30: | | |
| 2005 | $ | 2,488 |
| 2006 | | 2,227 |
| 2007 | | 1,301 |
| 2008 | | 634 |
| 2009 | | 635 |
| 2010 – 2014 | | 2,063 |
| 2015 – 2018 | | 1,551 |
| Total future minimum lease payments | | 10,899 |
| Amount representing interest | | (1,888) |
| Present value of net minimum lease payments | $ | 9,011 |

Capital assets (equipment) of $10,658 are recorded by the City on its statement of net assets in conjunction with these capital leases.

(dollars in thousands)

b. Capital Leases - Other

The City has a capital lease agreement for the purchase of digital equipment. This lease is due in annual installments through 2005 with an annual interest rate of 4.97%.

| | |
|---|---|
| Year ending June 30: | |
| 2005 | $ 94 |
| Total future minimum lease payments | 94 |
| Amount representing interest | (4) |
| Present value of net minimum lease payments | $ 90 |

Capital assets (equipment) of $223 are recorded by the City on its statement of net assets in conjunction with this capital lease.

c. Capital Lease—Kiel Site Project – Obligation with Competent Unit

The City has a master lease agreement with SLDC, whereby the City has leased Stadium East Redevelopment Project and related property and portions of the City Block 210 (the Kiel Premises) to SLDC.

SLDC subleases the Kiel Premises back to the City. In 1998, SLDC issued two series of bonds for the purpose of refunding the outstanding bonds on which the City's lease payments were based. Pursuant to the master lease agreement, the lease payments made by the City are to be used by SLDC to fund annual debt service payments for SLDC's Kiel Site Lease Revenue Refunding Bonds, Series 1997A and B in the original amount of $13,605. The Series 1997A and B bonds were issued by SLDC in September 1997, and the proceeds were used to retire SLDC's Station East Redevelopment Project Lease Revenue Bonds, Series 1990 and 1992. The capital lease obligation is recorded as a long-term liability. The City's lease payments are payable from the general fund.

(dollars in thousands)

The following is a schedule, by years, of the future minimum lease payments together with the present value of the net minimum payments for the Kiel Premises as of June 30, 2004.

| | | |
|---|---|---|
| Year ending June 30: | | |
| 2005 | $ | 974 |
| 2006 | | 970 |
| 2007 | | 970 |
| 2008 | | 973 |
| 2009 | | 970 |
| 2010 – 2014 | | 4,839 |
| 2015 – 2019 | | 4,863 |
| 2020 – 2022 | | 2,934 |
| Total future minimum lease payments | | 17,493 |
| Amount representing interest | | (6,073) |
| Present value of net minimum lease payments | $ | 11,420 |

No capital assets are recorded by the City on its statement of net assets in conjunction with this capital lease due to the proceeds of this obligation being used for demolition and site preparation.

d. Capital Lease—Convention Center Hotel – Obligation with Component Unit

The City is subject to a Third Supplemental and Restated Lease Purchase Agreement (the Agreement) between the City, SLMFC and SLDC, whereby SLMFC leases the Convention Center to the City. In 2000, SLDC issued Series 2000 Compound Interest Leasehold Revenue Bonds (Series 2000 Bonds) in the amount of $40,000 for the purpose of providing funding for the construction of a convention center hotel within the vicinity of the Convention Center. Under the Agreement, SLMFC has assigned its rights under the lease relative to the Series 2000 Bonds to SLDC. The City is required, beginning on July 15, 2011, to make lease payments to SLDC to fund the annual debt service payments for the Series 2000 Bonds. The City's obligation to make these lease payments to SLDC is subordinate to the City's obligation to meet the debt service requirements of the Series 1993A and Series 2003 Convention Center Leasehold Revenue Bonds (see note 15).

(dollars in thousands)

The capital lease obligation is recorded as a long-term liability. The City's lease payments are payable from the capital projects fund. The following is a schedule, by years, of the future minimum lease payments together with the present value of the net minimum payments for the capital lease as of June 30, 2004.

| | |
|---|---|
| Year ending June 30: | |
| 2005 | $ – |
| 2006 | – |
| 2007 | – |
| 2008 | – |
| 2009 | – |
| 2010 – 2014 | 8,510 |
| 2015 – 2019 | 76,475 |
| 2020 – 2022 | 15,295 |
| Total future minimum lease payments | 100,280 |
| Amount representing interest | (60,280) |
| Present value of net minimum lease payments | $ 40,000 |

No capital assets are recorded by the City on its statement of net assets in conjunction with this capital lease due to the proceeds of this obligation being used for construction of a convention center hotel that is not owned by the City.

## 15. LEASEHOLD REVENUE IMPROVEMENT AND REFUNDING BONDS

### a. Civil Courts

On June 1, 2003, the SLMFC issued $23,400 in Leasehold Revenue Refunding Bonds (Series 2003A) with an average interest rate of 4.02% to advance refund $22,480 of Series 1994 Bonds with an average interest rate of 6.08%. The net proceeds of $24,434 (after the addition of a $1,811 premium less a payment of $777 in issuance costs) were deposited with the escrow agent under the escrow deposit agreement and, together with interest earnings thereon, will be applied to the payment of principal and interest on the Series 1994 Bonds maturing on August 1, 2003 and 2004, and to the redemption on August 1, 2004 of the remaining Series 1994 Bonds. As a result, the Series 1994 Bonds are considered defeased, and the liability for those bonds has been removed from the basic financial statements. As of June 30, 2004, $20,940 of these defeased Series 1994 bonds remain outstanding.

b. Convention Center

On July 15, 1993, SLMFC issued $144,362 in Leasehold Revenue Refunding Bonds (Series 1993A Bonds). The Series 1993A Bonds were issued to refund bonds previously issued by SLDC (SLDC Bonds). Pursuant to the SLDC Bonds, SLDC held title to the Convention Center. Once the proceeds of the Series 1993A Bonds were deposited in an irrevocable trust to pay the principal and interest on the outstanding SLDC Bonds and certain other conditions were satisfied, the Convention Center property was conveyed to SLMFC. The Series 1993A Bonds consisted of current interest bonds ($51,330 serial bonds and $90,465 term bonds) and compound interest bonds with an initial offering price of $2,567 and a final maturity amount on July 15, 2014 of $9,615. The yield to maturity for the compound interest bonds at the initial offering price was 6.4%. Lease payments calculated to meet the principal, interest, and other costs related to the Series 1993A Bonds are paid for in the City's general fund.

On April 15, 2003, the SLMFC issued $118,575 in Leasehold Revenue Refunding Bonds (Convention Center Project) with an average interest rate of 4.67% to advance refund the current interest bonds portion of the Series 1993A Bonds with an average interest rate of 5.87%. The net proceeds of $125,373 (after the addition of a $9,439 premium less a payment of $2,641 in issuance cost) were deposited with the escrow agent under the escrow deposit agreement, and were applied on July 15, 2003 to the redemption of the $119,960 of Series 1993A current interest leasehold revenue bonds. Thus, as of June 30, 2004, only the compound interest bonds of the Series 1993A bonds remain outstanding.

c. Justice Center

In August 1996, the SLMFC issued $75,705 in Leasehold Revenue Improvement Bonds, Series 1996A (Series 1996A Bonds) and $34,355 Leasehold Revenue Improvement and Refunding Bonds, Series 1996B (Series 1996B Bonds) (collectively, the 1996 Justice Center Bonds). The Series 1996A Bonds include serial bonds in the principal amount of $20,155 and term bonds in the principal amount of $55,550. The Series 1996B Bonds include serial bonds in the principal amount of $23,500 and term bonds in the principal amount of $10,835. Interest is payable semiannually on all bonds. The term bonds are subject to mandatory sinking fund redemption prior to their stated maturity dates.

The City's payments are secured by a pledge between the City and the trustee for the 1996 Justice Center Bonds, which authorizes the State to make direct payment to the trustee of the City's per diem reimbursement entitlements for costs incurred in boarding State prisoners. The City's payments are further insured by AMBAC. The principal amount of the bonds outstanding is recorded as a long-term liability. The City's payments for debt service are payable from the capital projects fund. Interest rates on the 1996 Justice Center Bonds range from 4.25% to 6.0%.

Proceeds from the Series 1996A Bonds were used to construct the City Justice Center, which replaced the former municipal jail that has been demolished and will house a total of 732 prisoners. The facility is a major addition to the City's justice system, bringing total detention capacity to over 1,500 beds. The City Justice Center site is located east of City Hall, south of the city-owned Carnahan Building, and west of the Thomas F. Eagleton Federal Courthouse. The City Justice Center is designed to meet standards established by the American Correctional Association.

In February 2000, the SLMFC issued $22,025 in City Justice Center Leasehold Revenue Improvement Bonds (Series 2000A Bonds) for the purpose of financing the completion of the City Justice Center, and funding the debt service reserve fund with respect to the Series 2000A Bonds, and paying costs of issuance of the Series 2000A Bonds. The Series 2000A Bonds, bearing a stated maturity of February 15, 2010, are not subject to redemption prior to their stated maturities. The Series 2000A Bonds, bearing a stated maturity of February 15, 2011 are subject to optional redemption and payment prior to their stated maturities at the election of SLMFC, upon direction and instruction by the City on February 15, 2010, and, at any time thereafter, as a whole at any time in part at any time, and if, in part, in such order as the SLMFC shall determine, upon the direction and instruction by the City in its sole discretion, at redemption prices ranging from 100% to 101%, plus accrued interest thereon, to the redemption date.

The principal amount of the bonds outstanding is recorded as a long-term liability of the City. The City's payments for debt service are payable from the capital projects fund. Interest rates on the Justice Center 2000A Bonds range from 4.75% to 6.0%.

On September 1, 2001, the SLMFC issued $62,205 in City Justice Center Leasehold Revenue Bonds (Series 2001A bonds) with an average interest rate of 4.93% to advance refund $58,115 of Series 1996A bonds with an average interest rate of 5.93%. As a result, this portion of the Series 1996A Bonds are considered to be defeased, and the liability for those bonds has been removed from the basic financial statements. As of June 30, 2004, $58,115 of these defeased Series 1996A Bonds remain outstanding.

d. Forest Park

On March 1, 1997, the SLMFC issued $19,270 in Forest Park Leasehold Revenue Improvement Bonds, Series 1997 (Series 1997 Bonds). The City has agreed, subject to annual appropriation, to make payments from the Forest Park Subaccount in the capital projects fund sufficient for the prompt payment when due of the principal, and interest on the Series 1997 Bonds. As long as any Series 1997 Bonds remain outstanding, the percentage of the one-half cent capital improvements sales tax approved by City voters on August 3, 1993 allocated to the Forest Park subaccount may not be reduced. Payments of principal and interest on the Series 1997 Bonds are insured by a policy of municipal bond insurance issued by Financial Guaranty Insurance Company. Interest is payable February 15 and August 15 of each year and principal is payable February 15 of each year until final maturity in 2022. Interest rates on the serial bonds payable 1998 through 2012 range from 3.7% to 5.375% and the term bonds due in 2017 and 2022 have a rate of 5.5%. The City's debt service payments are made from the capital projects fund.

The proceeds of the Series 1997 Bonds were used to fund a major portion of the City's contribution toward the estimated $86,000 Forest Park Master Plan (Plan). The Plan emphasized technical and environmental designs that are economical to maintain with a "river-like" flowing water system, simplified road system, and an added 7,500 trees. The Plan was completed in five phases through 2004.

e. Firemen's System

On April 1, 1998, the SLMFC issued $28,695 in Firemen's Retirement Systems Lease Revenue Bonds, Series 1998 (Series 1998 Bonds). Interest is paid semiannually on the bonds at the rate of 5.6% to 6.55%. The Series 1998 Bonds are subject to mandatory sinking fund redemption prior to maturity.

The City has covenanted, subject to annual appropriation, to pay rental payments at such times and in such amounts as are necessary to assure that no default in the payment of principal, premium, or interest on the Series 1998 Bonds occurs. The Series 1998 Bonds are further secured by a mortgage and deed of trust lien upon the facility (defined as the sites, building, structures, improvements, and fixtures occupied by the City's Fire Department Headquarters Building and 30 neighborhood engine houses) pursuant to the Deed of Trust and Security Agreement dated as of April 1, 1998. The principal amount of the bonds outstanding is recorded as a long-term liability. The City's payments for debt service are payable from the general fund.

The proceeds derived from the sale of the Series 1998 Bonds will be used to prepay a portion of the City's unfunded accrued actuarial liabilities in the form of a contribution to the Firemen's Retirement System and to pay cost of issuance for the Series 1998 Bonds.

f. Carnahan Courthouse

On April 1, 2002, the SLMFC issued $21,750 in Leasehold Revenue Bonds, Series 2002A (Series 2002A). The bonds include serial bonds in the principal amount of $12,310, and term bonds in the amount of $9,440. Interest is payable semiannually on all bonds. The term bonds are subject to mandatory sinking fund prior to their stated maturity date of February 15, 2027. The mandatory redemption begins February 15, 2023 and each February 15$^{th}$ thereafter, including February 15, 2027. The proceeds of the Series 2002A bonds are being used to finance the acquisition and renovation of the Carnahan Courthouse.

The City's payments are secured by a pledge agreement between the City and the Series 2002A trustee. The City's payments are further insured by the Financial Guaranty Insurance Company (FGIC). Interest rates on the bonds range from 4.81% to 5.40%.

(dollars in thousands)

g. Principal and Interest Requirements

Principal and interest requirements for the Leasehold Revenue Improvement and Refunding Bonds are as follows:

| | | Civil Courts | | Convention Center | |
|---|---|---|---|---|---|
| | | **Principal** | **Interest** | **Principal** | **Interest** |
| Year ending June 30: | | | | | |
| 2005 | $ | 1,850 | 911 | 7,065 | 5,387 |
| 2006 | | 1,905 | 853 | 8,755 | 5,114 |
| 2007 | | 1,985 | 769 | 9,590 | 4,764 |
| 2008 | | 2,075 | 677 | 13,445 | 4,277 |
| 2009 | | 2,155 | 589 | 11,675 | 3,688 |
| 2010 – 2014 | | 12,345 | 969 | 60,525 | 10,426 |
| 2015 | | - | - | 10,086 | 7,229 |
| | $ | 22,315 | 4,768 | 121,141 | 40,885 |

| | | Justice Center | | Forest Park | |
|---|---|---|---|---|---|
| | | **Principal** | **Interest** | **Principal** | **Interest** |
| Year ending June 30: | | | | | |
| 2005 | $ | 4,935 | 5,797 | 515 | 865 |
| 2006 | | 5,380 | 5,544 | 540 | 841 |
| 2007 | | 5,860 | 5,268 | 565 | 816 |
| 2008 | | 6,160 | 4,964 | 590 | 788 |
| 2009 | | 6,490 | 4,638 | 620 | 759 |
| 2010 – 2014 | | 40,830 | 18,720 | 3,620 | 3,270 |
| 2015 – 2019 | | 41,315 | 6,353 | 4,725 | 2,168 |
| 2020 – 2022 | | 1,760 | 106 | 4,945 | 630 |
| | $ | 112,730 | 51,390 | 16,120 | 10,137 |

| | | Fireman's System | |
|---|---|---|---|
| | | **Principal** | **Interest** |
| Year ending June 30: | | | |
| 2005 | $ | 2,055 | 1,062 |
| 2006 | | 2,185 | 927 |
| 2007 | | 2,325 | 784 |
| 2008 | | 2,475 | 629 |
| 2009 | | 2,635 | 465 |
| 2010 – 2011 | | 5,795 | 386 |
| | $ | 17,470 | 4,253 |

(dollars in thousands)

| | | Carnahan Courthouse | |
|---|---|---|---|
| | | **Principal** | **Interest** |
| Year ending June 30: | | | |
| 2005 | $ | – | 1,139 |
| 2006 | | – | 1,139 |
| 2007 | | – | 1,139 |
| 2008 | | – | 1,139 |
| 2009 | | – | 1,139 |
| 2010 – 2014 | | 1,050 | 5,693 |
| 2015 – 2019 | | 6,205 | 4,726 |
| 2020 – 2024 | | 7,990 | 2,938 |
| 2025 – 2027 | | 6,505 | 713 |
| | $ | 21,750 | 19,765 |

16. JOINT VENTURE FINANCING AGREEMENT

a. St. Louis Regional Convention and Sports Complex Authority (Authority)

In April 1990, the Authority was established as a separate legal entity by an act of the Missouri State legislature to acquire, purchase or lease, and construct, operate, and maintain convention centers, sports stadiums, field houses, indoor and outdoor convention, recreational, and entertainment facilities, and to do all things incidental or necessary to facilitate these purposes.

b. Series C 1991 Bonds and Series C 1997 Bonds (Series C Bonds)

On August 15, 1991, the City sponsored the issuance of $60,075 in Convention and Sports Facility Project Bonds Series C 1991 (Series C 1991 Bonds). The Series C Bonds were issued by the Authority, together with the proceeds of the Authority's $132,910 principal amount of Convention and Sports Facility Project Bonds, Series A 1991 (State, Sponsor) (Series A Bonds) and the Authority's $65,685 principal amount of Convention and Sports Facility Bonds, Series B 1991 (County, Sponsor) (Series B Bonds). The Series A Bonds, the Series B Bonds, and the Series C 1991 Bonds (collectively, the Project Bonds) were issued for the purpose of providing funds to finance the costs of acquiring land and constructing thereon an eastward expansion of the Cervantes Convention Center to be used as a multipurpose convention and indoor sports facility (Project).

During February 1997, the Authority issued Convention and Sports Facility Project and Refunding Bonds Series C 1997 (Series C 1997 Bonds) in the amount of $61,285. The proceeds were used to refund, in advance of maturity, $47,155 of the Series C 1991 bonds. A portion of the Series C 1991 Bonds maturing on August 15, 2021 are not subject to optional redemption and $8,820 remain outstanding. Approximately $2,100 of the proceeds were used for various project improvements.

(dollars in thousands)

The Authority entered into a Project Financing Construction and Operation Agreement (Financing Agreement) dated August 1, 1991 with the City, State, and County (collectively, the Sponsors) providing for the application of the proceeds of the Project Bonds, for the repayment of the Project Bonds, and for the operation and maintenance of the Project. Pursuant to the Financing Agreement, the Authority will lease the Project to the Sponsors who will sublease the project back to the Authority. The rental payments made by the Sponsors under the Financing Agreement are designed to be sufficient to pay the principal and interest on the Project Bonds. The preservation payments to be made by the Sponsors under the Financing Agreement will be used to pay for repairs and replacement of major Project components and renovation necessary to maintain the Project. A portion of the preservation payments from each sponsor was deposited to the bond fund of the Authority each year from 1994 through 1999 to pay principal and interest on the Project Bonds. On August 1 and February 1 of each year, the City is obligated (subject to appropriations) to make rental payments of \$2,500 and preservation payments of \$500 regardless of the principal and interest payments due.

At June 30, 2004, the City's obligation for the Series C Bonds and net preservation payments (after deposits to the bond fund) payable from the general fund under the Financing Agreement is as follows:

| | | Principal | Interest | Preservation Payments | Total |
|---|---|---|---|---|---|
| Year ending June 30: | | | | | |
| 2005 | $ | 2,010 | 2,939 | 1,051 | 6,000 |
| 2006 | | 2,105 | 2,842 | 1,053 | 6,000 |
| 2007 | | 2,200 | 2,739 | 1,061 | 6,000 |
| 2008 | | 2,310 | 2,630 | 1,060 | 6,000 |
| 2009 | | 2,420 | 2,513 | 1,067 | 6,000 |
| 2010 – 2014 | | 14,100 | 10,484 | 5,416 | 30,000 |
| 2015 – 2019 | | 18,305 | 6,176 | 5,519 | 30,000 |
| 2020 – 2022 | | 13,480 | 1,135 | 385 | 15,000 |
| | $ | 56,930 | 31,458 | 16,612 | 105,000 |

Series C Bonds' principal and the preservation payments are included in the City's basic financial statements as a long-term liability.

(dollars in thousands)

17. REVENUE BONDS PAYABLE

a. Airport

Bonds outstanding at June 30, 2004 are summarized as follows:

| | | |
|---|---|---|
| Bond Series 1993, interest rates ranging of 6.15%, payable through 2005 | $ | 12,245 |
| Bond Series 1996, interest rates ranging from 5.05% to 5.35%, payable in varying amounts through 2008 | | 15,885 |
| Bond Series 1997, interest rates ranging from 4.50% to 6%, payable in varying amounts through 2028 | | 190,500 |
| Bond Series 1998, interest rates ranging from 4.0% to 5.13%, payable in varying amounts through 2016 | | 67,930 |
| Bond Series 2001A, interest rates ranging from 4.13% to 5.63%, payable in varying amounts through 2032 | | 435,185 |
| Bond Series 2002, Series A, B, and C, interest rates ranging from 2.50% to 5.50%, payable in varying amounts through 2033 | | 112,965 |
| Bond Series 2003A, interest rates ranging from 2.38% to 5.25%, payable in varying amounts through 2019 | | 70,340 |
| Bond Series 2003B, interest rates ranging from 1.88% to 2.05%, payable in varying amounts through 2006 | | 25,460 |
| | | 930,510 |
| Less: | | |
| Current maturities | | (35,775) |
| Unamortized discounts and premiums | | 5,299 |
| Deferred amounts on refunding | | (6,786) |
| | $ | 893,248 |

On December 19, 2002, the Airport issued $69,195 in Series 2002A (Capital Improvement Program) Airport Revenue Bonds for the purpose of financing or reimbursing a portion of the cost of construction, improvement, renovation, expansion, rehabilitation, and equipping of certain capital improvement projects at the Airport. The net proceeds from the Series 2002A Bonds were $68,886 (after the addition of $1,710 net issue premium and the payment of $2,019 in underwriting fees, insurance, and other issuance costs). The Series 2002A Bonds are secured by the net revenues from the operations of the Airport.

On December 19, 2002, the Airport issued $31,755 in Series 2002B (Capital Improvement Program) Airport Revenue Bonds for the purpose of financing or reimbursing a portion of the cost of construction, improvement, renovation, expansion, rehabilitation, and equipping of certain capital improvement projects at the Airport. The net proceeds from the Series 2002B Bonds were $30,751 (after the deduction of $83 original issue discount and the payment of $921 in underwriting fees, insurance, and other issuance costs). The Series 2002B Bonds are secured by the net revenues from the operations of the Airport.

(dollars in thousands)

On December 19, 2002, the Airport issued $17,035 in Series 2002C Revenue Refunding Bonds with an average interest rate of 4.8% to current refund $17,070 of outstanding 1992 Series bonds with an average interest rate of 5.7%. The net proceeds of $17,584 (after the addition of a net issue premium of $925 and payment of $376 in underwriting fees, insurance, and other issuance costs) plus an additional $429 of 1992 Series debt service monies were deposited into an irrevocable trust with an escrow agent to redeem the 1992 Series on February 1, 2003 at a premium of $341.

On February 25, 2003, the Airport issued $70,340 in Series 2003A Revenue Refunding Bonds with an average interest rate of 5.4% to refund $75,780 of outstanding 2000 Series Letter of Intent Bonds with an average interest rate of 7.1%. The net proceeds of $73,024 (after the addition of a net issue premium of $4,453 and payment of $1,769 in underwriting fees, insurance, and other issuance costs) plus an additional $36,036 of 2000 Series debt service monies were deposited into an irrevocable trust with an escrow agent to provide for the redemption of the 2000 Series Letter of Intent Double Barrel Revenue Bonds on July 1, 2003 at a premium of $674. As a result, the 2000 Letter of Intent Bonds are considered to be defeased and the liability for those bonds has been removed from the financial statements.

On May 29, 2003, the Airport issued $29,520 in Series 2003B Taxable Revenue Refunding Bonds with an average interest rate of 2.1% to refund $12,990 of outstanding 1993 Series Taxable Revenue Refunding bonds maturing July 1, 2005 and $14,800 of outstanding 1993A Series Taxable Revenue Refunding bonds maturing July 1, 2004 and 2005 with an average interest rate of 8.1%. The net proceeds of $28,945 (after the addition of a net issue premium of $31 and payment of $606 in underwriting fees, insurance, and other issuance costs) plus an additional $3,238 of 1993 and 1993A Series debt service monies were deposited into an irrevocable trust with an escrow agent to provide for the redemption of the 1993 Series payment maturing July 1, 2005 and 1993A Series payment maturing July 1, 2004 and 2005 on July 1, 2003 at a premium of $556. As a result, the portion of 1993 Series payment maturing July 1, 2005 and the portion of 1993A Series payments maturing July 1, 2004 and 2005 are considered to be defeased and the liability for those bonds have been removed from the financial statements.

On July 11, 2003, the Airport defeased $3,285 of Series 1997 Bonds by placing funds in an irrevocable trust to provide for the July 1, 2004 debt service payment on these bonds. Accordingly, the trust account assets and the liability of the defeased bonds are not included in the Airport's financial statements. At June 30, 2004, $3,285 of the Series 1997 Bonds are considered defeased.

The deferred amounts on refunding of $6,787 at June 30, 2004 relate to the refunded Bond Series 1984, Bond Series 1987, Bond Series 1992, Bond Series 1993, Bond Series 1993A, and Bond Series 2000, and are included in revenue bonds payable. The deferred amounts on refunding are amortized as a component of interest expense using the bonds outstanding method over the life of the new bonds.

Management of the Airport is not aware of any violations of significant bond covenants with respect to the above issues at June 30, 2004.

As of June 30, 2004, the Airport's aggregate debt service requirements for the next five years and in five-year increments thereafter are as follows:

| | Principal | Interest | Total |
|---|---|---|---|

| | | | |
|---|---|---|---|
| Year ending June 30: | | | |
| 2005 | $ 35,775 | 46,985 | 82,760 |
| 2006 | 23,390 | 45,649 | 69,039 |
| 2007 | 16,235 | 44,843 | 61,078 |
| 2008 | 31,495 | 43,727 | 75,222 |
| 2009 | 28,440 | 42,261 | 70,701 |
| 2010 – 2014 | 165,805 | 186,629 | 352,434 |
| 2015 – 2019 | 184,745 | 138,878 | 323,623 |
| 2020 – 2024 | 166,320 | 93,293 | 259,613 |
| 2025 – 2029 | 177,960 | 48,505 | 226,465 |
| 2030 – 2034 | 100,345 | 8,636 | 108,981 |
| | $ 930,510 | 699,406 | 1,629,916 |

In prior years, the Airport advance refunded $252,790 of Airport Revenue Bonds by placing funds in an irrevocable trust to provide for all future debt service payments on these bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the financial statements. At June 30, 2004, $108,500 of outstanding revenue bonds are considered defeased.

b. Water Division

Water revenue bonds outstanding at June 30, 2004 are payable solely from, and secured by, a pledge of net revenues from the operation of the Water Division and are summarized as follows:

| | |
|---|---|
| Series 1994 Water Revenue Bonds, 5.0% to 5.95%, payable in varying amounts through July 1, 2006 | $ 7,510 |
| Series 1998 Water Revenue Bonds, 4.0% to 4.75% payable in varying amounts through July 1, 2014 | 29,175 |
| | 36,685 |
| Less: | |
| Current maturities | (2,365) |
| Deferred amount on refunding of a portion of the 1994 Water Revenue Bonds | (1,542) |
| Unamortized discounts | (124) |
| | $ 32,654 |

1) Series 1994 Water Revenue Bonds

In April 1994, the Water Division issued $51,570 in revenue refunding and improvement bonds (Series 1994 Bonds). The Series 1994 Bonds are payable solely from, and secured, by the revenues of the waterworks system. The Series 1994 Bonds were issued as part of the $170,000 of bonds approved by voters at an election held April 6, 1993. The Series 1994 Bond proceeds were principally used to finance the construction of improvements to the waterworks system, to refund and defease all of the outstanding Series 1985 Bonds, and pay the costs of the bonds' issuance. Proceeds of the Series 1994 Bonds were also used to pay the premiums of a municipal bond insurance policy issued by Financial Guaranty Insurance Company. This policy, which guarantees the payment of principal and interest on the Series 1994 Bonds, is noncancelable and extends for the term of the Series 1994 Bonds. The Water Division is subject to certain covenants under the Series 1994 Bonds.

As noted above, a portion of the Series 1994 Bond proceeds will fund the construction of certain improvements to the waterworks system. These projects are: (1) improvements to the Chain of Rocks treatment plant sedimentation basin, (2) the rehabilitation of the 60-inch Conduit No. 1 from the Howard Bend treatment plant, (3) chlorination system improvements at the Howard Bend and Chain of Rocks plants, and (4) the improvement of the Compton Hill Reservoir. These projects respond to changing environmental regulations and maintaining the integrity and reliability of the waterworks system.

Construction on the Compton Hill Reservoir and the rehabilitation of the 60-inch Conduit No. 1 from the Howard Bend treatment plant were completed in 1999 for total costs of $22,664 and $10,714, respectively. Chain of Rocks treatment plant sedimentation basins were completed in 2001 for a total cost of $24,490. Chlorination system improvements were completed in 2002 for a total cost of $7,268.

2) <u>Series 1998 Water Revenue Bonds</u>

In December 1998, the Water Division issued $29,225 in Water Revenue Refunding Bonds (Series 1998 Bonds) with an average interest rate of 4.56% to advance refund $27,775 of the outstanding Series 1994 Bonds, maturing between 2007 and 2014, with an average interest rate of 6.02%. The net proceeds of $28,451 (after the subtraction of an original issue discount of $190 and the payment of $584 in underwriting fees and other issuance costs) plus an additional $2,508 of Series 1994 Bonds debt service fund monies were deposited in an irrevocable trust with an escrow agent to provide for all future payments on the $27,775 principal of the Series 1994 Bonds. As a result, this portion of the Series 1994 Bonds are considered to be defeased and the liability for those bonds has been removed from the financial statements. At June 30, 2004, $27,775 of the defeased Series 1994 Bonds are outstanding.

Proceeds of the Series 1998 Bonds were also used to pay the premiums of a municipal bond insurance policy issued by AMBAC Assurance Corporation. This policy, which guarantees the payment of principal and interest on the Series 1998 Bonds, is noncancelable and extends for the term of the Series 1998 Bonds. The Water Division is subject to certain covenants under the Series 1998 Bonds.

(dollars in thousands)

Debt service requirements to maturity of the 1994 and 1998 Water Revenue Bonds are as follows:

| | | Principal | Interest | Total |
|---|---|---|---|---|
| Year ending June 30: | | | | |
| 2005 | $ | 2,365 | 1,590 | 3,955 |
| 2006 | | 2,500 | 1,444 | 3,944 |
| 2007 | | 2,645 | 1,286 | 3,931 |
| 2008 | | 2,850 | 1,169 | 4,019 |
| 2009 | | 3,300 | 1,032 | 4,332 |
| 2010 – 2014 | | 18,755 | 2,780 | 21,535 |
| 2015 | | 4,270 | – | 4,270 |
| | $ | 36,685 | 9,301 | 45,986 |

c. Parking Division

Revenue bonds outstanding at June 30, 2004 are as follows:

| | |
|---|---|
| Series 1996 Revenue Bonds, interest rates ranging from 3.6% to 5.375%, payable in varying amounts through 2021 | $ 23,085 |
| Series 1999 Revenue Bonds, interest rates ranging from 5.75% to 7.375%, payable in varying amounts through 2021 | 10,445 |
| Series 2002 Revenue Bonds, interest rates ranging from 5.50% to 7.25% payable in varying amounts through 2028 | 21,005 |
| SLPCFC Series 2003A tax exempt revenue bonds interest rates variable not to exceeded 12% payable in varying amounts through 2028 | 6,730 |
| SLPCFC Series 2003B taxable revenue bonds interest rates variable not to exceeded 5% payable in varying amounts through 2038 | 6,869 |
| | 68,134 |
| Less: | |
| Current maturities | (1,450) |
| Unamortized discount and deferred loss on refunding | (2,680) |
| | $ 64,004 |

On December 16, 2003, the Parking Division sold its parking facility at the Marquette Garage for $6,980 net of closing costs. The proceeds of this sale, along with $715 of Parking Division funds, were deposited into an irrevocable trust with an escrow agent to provide for the remaining principal and interest payments on the $7,000 of Series 1998 revenue bonds outstanding, which had been issued on June 1, 1998 to construct and equip the parking facility at the Marquette Garage. As a result, the Series 1998 bonds are considered to be defeased and the liability for those bonds have been removed from the financial statements. The defeasance of the Series 1998 bonds resulted in a loss of $916, which is reported as a nonoperating expense.

On November 20, 2003, the SLPCFC issued $6,730 in Series 2003A Tax Exempt Parking Revenue Bonds at a variable interest rate not to exceed 12% and $6,882 in Series 2003B Taxable Parking Revenue Bonds at a variable interest rate not to exceed 5% for the purpose of purchasing the Cupples Garage located in downtown St. Louis. The net proceeds of the bonds were $13,127, after the deduction of $485 in underwriting fees and issuance costs. The Series 2003A and 2003B bonds are secured solely by the net revenues of the Cupples Garage, and do not constitute a general obligation of the Parking Division or of the City.

On August 28, 2002, the Parking Division issued $21,005 in Subordinated Parking Revenue Bonds with interest rates ranging from 5.50% to 7.25%. The bonds consist of $17,865 in Series 2002A Subordinated Tax Exempt Parking Revenue Bonds, and $3,140 in Series 2002B Subordinated Taxable Parking Revenue Bonds. The bonds were issued for the purpose of paying the costs of acquisition and construction of two parking facilities in downtown St. Louis and redeeming the Parking Division's outstanding short-term revenue bonds payable. The net proceeds from the bonds were $19,842 (after the deduction of an original issue discount of $341 and the payment of $822 in underwriting fees and other issuance costs). The Series 2002 bonds are secured solely by the revenues from the parking garages constructed and certain other pledged Parking Division revenues, and do not constitute a general obligation of the City.

On November 1, 1999, the Parking Division issued $11,420 in Parking Revenue Bonds with interest rates ranging from 5.75% to 7.375%. The bonds consist of $5,840 Series 1999A Tax Exempt Bonds and $5,580 Series 1999B Taxable Bonds. The net proceeds of the bonds, after payment of costs of issuance and the required deposits to the Series 1999 debt service reserve fund, together with other available funds, are to be used to design, construct, and equip a public parking facility on land owned by the City.

On December 5, 1996, the Parking Division issued $25,820 in Parking Revenue Refunding Bonds with interest rates ranging from 3.600% to 5.375% to advance refund $22,750 of outstanding Series 1992 bonds with interest rates ranging from 4.200% to 6.625%. The net proceeds of $25,250 (after payment of $570 of original issue discount) were used to pay underwriting fees, insurance, and other issuance costs, and the remaining proceeds were used to purchase U.S. government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the Series 1992 bonds. As a result, the Series 1992 bonds are considered defeased and the liability for those bonds have been removed from the financial statements. At June 30, 2004, no Series 1992 bonds remain outstanding.

The Parking Division issued the Series 1996 bonds with a par value of $25,820 to (1) pay the remaining costs of completing the project (acquisition of real estate and the construction of a multilevel public parking garage and other parking facilities), (2) retire the Series 1992 bonds, (3) pay issuance costs and (4) fund the debt service reserve fund. The Series 1996 bonds are payable from, and secured by, a pledge of (1) revenues to be generated from the operation of the project, (2) certain other parking revenues derived from the activities of the Parking Division, and (3) certain revenues from parking fines and penalties collected by the City's Traffic Violations Bureau.

(dollars in thousands)

Debt service requirements for the Parking Division revenue bonds are as follows:

| | | **Principal** | **Interest** | **Total** |
|---|---|---|---|---|
| Year ending June 30: | | | | |
| 2005 | $ | 1,450 | 3,684 | 5,134 |
| 2006 | | 1,492 | 3,604 | 5,096 |
| 2007 | | 1,582 | 3,518 | 5,100 |
| 2008 | | 1,670 | 3,427 | 5,097 |
| 2009 | | 2,051 | 3,222 | 5,273 |
| 2010 – 2014 | | 12,375 | 14,682 | 27,057 |
| 2015 – 2019 | | 16,388 | 10,665 | 27,053 |
| 2020 – 2024 | | 18,820 | 5,631 | 24,451 |
| 2025 – 2029 | | 8,532 | 2,169 | 10,701 |
| 2030 – 2034 | | 2,079 | 737 | 2,816 |
| 2035 – 2038 | | 1,695 | 211 | 1,906 |
| | $ | 68,134 | 51,550 | 119,684 |

(dollars in thousands)

18. SHORT-TERM DEBT

a. City

Short-term debt activity for the year ended June 30, 2004 was as follows:

| | Balance June 30, 2003 | Issued | Redeemed | Balance June 30, 2004 |
|---|---|---|---|---|
| Tax revenue anticipation notes | $ – | 50,000 | (50,000) | – |

b. Airport

On May 1, 2004, the City's Board of Alderman authorized the Airport to issue Commercial Paper Notes, 2004 Program, in an aggregate principal amount not to exceed $125,000 outstanding at any one time. On May 26, 2004, the Airport issued $10,000 in Series 2004A Commercial Paper Notes, due August 17, 2004, at an annual interest rate of 1.1% for the purpose of financing the cost of extension, improvement, purchase, acquisition, construction or enlargement of facilities, appurtenances and equipment at the Airport. The net proceeds of the Series 2004A Commercial Paper Notes were $9,110 (after the deduction of $890 in issuance costs).

Following is a summary of the changes in commercial paper for the Airport for the year ended June 30, 2004:

| | Balance June 30, 2003 | Issued | Redeemed | Balance June 30, 2004 |
|---|---|---|---|---|
| Commercial paper payable | $ – | 10,000 | – | 10,000 |

(dollars in thousands)

19. FORWARD PURCHASE AGREEMENTS

a. Objective of the Forward Purchase Agreements

The Airport, Water Division, and Parking Division have entered into eleven forward purchase agreements with financial institutions, which guarantee a fixed rate of return on the invested proceeds of the debt service and debt service reserve funds of certain revenue bond issuances. The Airport, Water Division and Parking Division entered into these agreements in order to ensure that their investments will earn a guaranteed rate of interest regardless of fluctuations in market interest rates.

b. Terms

The terms of Airport forward purchase agreements I – VI are as follows:

| | Airport I | Airport II | Airport III | Airport IV | Airport V | Airport VI |
|---|---|---|---|---|---|---|
| Date of origin | June 1995 | September 1997 | October 2000 | December 2003 | December 2003 | December 2003 |
| Underlying bond account(s) | Series 1993, Series 1996, Series 2002C, Series 2003B debt service | Series 1997 debt service reserve | Series 2003A debt service reserve | Series 1997A debt service reserve | Series 1997B debt service | Series 2001A debt service |
| Guaranteed interest rate | 6.34% | 6.18% | 6.47% | 5.332% | 5.352% | 5.422% |
| Lump sum payment received at beginning of agreement | $7,209 | N/A | N/A | N/A | N/A | N/A |
| Date of termination (upon maturity of bond series) | 2015 | 2027 | 2008 | 2027 | 2027 | 2031 |
| Notional amount (representing balance in applicable accounts) | $29,203 | $14,970 | $7,479 | $969 | $4,127 | $21,919 |
| Obligation (representing the unamortized portion of lump sum payment) recorded on the statement of fund net assets at June 30, 2004 | $1,966 | N/A | N/A | N/A | N/A | N/A |

(dollars in thousands)

The terms of Airport forward purchase agreements VII – IX, the Water Division forward purchase agreement, and the Parking Division forward purchase agreement are as follows:

| | Airport VII | Airport VIII | Airport IX | Water Division | Parking Division |
|---|---|---|---|---|---|
| Date of origin | December 2003 | December 2003 | December 2003 | February 1996 | August 1997 |
| Underlying bond account(s) | Series 2002A debt service | Series 2002B debt service | Series 2003A debt service reserve | Series 1994 and Series 1998 debt service | Series 1996 debt service reserve and parking trust fund |
| Guaranteed interest rate | 5.463% | 5.332% | 5.579% | 6.20% | 5.51% |
| Lump sum payment received at beginning of agreement | N/A | N/A | N/A | $941 | N/A |
| Date of termination (upon maturity of bond series) | 2032 | 2032 | 2018 | 2014 | 2021 |
| Notional amount (representing balance in applicable accounts) | $4,221 | $1,015 | $6,547 | $3,565 | $7,742 |
| Obligation (representing the unamortized portion of the initial lump sum payment) recorded on the statement of fund net assets | N/A | N/A | N/A | $448 | N/A |

In July 2003, Airport forward purchase agreement I was amended to replace Bond Series 1993A with Bond Series 2003B. No payment was made in consideration of this amendment.

For the Airport forward purchase agreement I and the Water Division forward purchase agreement, in exchange for the lump sum payment received, the City has contracted to buy qualified eligible securities from financial institutions every month until the bonds mature, are called, or are refinanced. These institutions receive the actual interest earned on the securities purchased every month. The difference between the fixed interest rate earned by the City and the variable interest rate paid to the financial institution is recorded as a net adjustment to net interest expense.

(dollars in thousands)

For Airport forward purchase agreements II through IX and the Parking Division forward purchase agreement, the City has contracted to buy qualified eligible securities from a financial institution on a semiannual basis and the financial institution has guaranteed that the securities will earn a stated rate. To the extent the securities earn a greater rate of return, the City is required to refund the differential to the financial institution, if a lesser rate is earned, the financial institution absorbs the loss.

c. Fair Value

As disclosed above, the City's obligations associated with Airport forward purchase agreement I and the Water Division forward purchase agreement are recorded on the financial statements as other liabilities. This liability represents the unamortized portion of the initial lump sum payment received pursuant to these agreements.

The fair value of the remaining forward purchase agreements, under which no initial lump-sum payments were received, is not recorded on the financial statements. As of June 30, 2004, these fair values are as follows:

| Agreement | Fair Value |
|---|---|
| Airport II | $ 3,805 |
| Airport III | 1,065 |
| Airport IV | 126 |
| Airport V | 536 |
| Airport VI | 1,309 |
| Airport VII | 208 |
| Airport VIII | 60 |
| Airport IX | 468 |
| Parking Division | 676 |

These fair values were calculated using the following method: the variable rate of return to be retained by the financial institutions was assumed to be the rate of a return available at June 30, 2004 for a United States Treasury obligation with a comparable length of time remaining until maturity. The variable rate of return was then subtracted from the fixed rate of return guaranteed, and multiplied by the securities required to be invested under the agreements for all future periods. The resulting differential in future cash flows was discounted to the present at the rate of a return available at June 30, 2004 for a United States Treasury obligation with a comparable length of time remaining until maturity.

d. Credit Risk

The forward purchase agreements' fair value represents the credit exposure of the Airport, Water Division, and Parking Division to the financial institutions as of June 30, 2004. Should the financial institutions fail to perform according to the terms of the agreement, the Airport, Water Division and Parking Division face a maximum possible loss equivalent to the agreements' fair value.

e. Interest Rate Risk
The forward purchase agreement exposes the Airport, Water Division, and Parking Division to interest rate risk. Should interest rates increase above the levels guaranteed by the agreement, the financial institution, and not the Airport, Water Division, or Parking Division, would realize this increase in investment earnings.

f. Termination Risk

Should the Airport, Water Division, or Parking Division terminate the agreements or default on their obligations pursuant to the agreements, a termination payment would either be owed to or due from the financial institution, and would be calculated based upon market interest rate conditions at the time of the termination.

(dollars in thousands)

20. OPERATING LEASES

a. At June 30, 2004, the City was committed under miscellaneous operating leases for office space. Future minimum base rental payments under terms of the operating leases are as follows:

| | |
|---|---|
| Year ending June 30: | |
| 2005 | $ 1,335 |
| 2006 | 951 |
| 2007 | 845 |
| 2008 | 676 |
| 2009 | 546 |
| 2010 – 2014 | 2,248 |
| 2015 – 2019 | 1,406 |
| 2020 – 2024 | 250 |
| 2025 – 2028 | 188 |
| | $ 8,445 |

b. The Airport has long-term use agreements and leases with signatory air carriers, which expire on December 31, 2005. Under the terms of the use agreements and leases, the air carriers have agreed to pay airfield landing fees; terminal and concourse rentals; hangar, cargo, and maintenance facility rentals; and certain miscellaneous charges in consideration for use of the Airport. The use and lease agreements also require the Airport to make certain capital improvements and to provide maintenance of certain Airport facilities. Payments by the air carriers are determined as follows:

- Landing fees are calculated based on estimated operating and maintenance expenses of the airfield, and allocated to the air carriers on the basis of landing weights. Landing fee revenues are adjusted each year by retroactive rate adjustment, which is calculated as the difference between estimated and actual costs incurred and estimated and actual landing weights. These revenues are included in aviation revenue - airfield.

- Rentals are calculated based on estimated operating and maintenance expenses of the terminal and concourse areas and hangars, cargo, and maintenance facilities, and allocated to the air carriers on the basis of square footage utilized. Rental revenue is adjusted each year by retroactive rate adjustment, which is calculated as the difference between estimated and actual costs incurred. These revenues are included in aviation revenue – terminal and concourses, hangars and other buildings, or cargo buildings, respectively.

- Miscellaneous income is derived from the air carriers for their use of sanitary disposal facilities and airline service buildings.

During fiscal year 2004, revenues from signatory air carriers accounted for 52% of total Airport operating revenues.

Minimum future rentals for each year in the next five years and in the aggregate are not determinable given the method of calculation.

(dollars in thousands)

The following is a summary of aviation revenue by category and source from signatory and nonsignatory air carriers for the year ended June 30, 2004:

| | | Signatory | Nonsignatory | Total |
|---|---|---|---|---|
| Airfield | $ | 36,112 | 7,596 | 43,708 |
| Terminal and concourses | | 23,795 | 893 | 24,688 |
| Hangars and other buildings | | 378 | 43 | 421 |
| Cargo buildings | | 1,878 | – | 1,878 |
| | $ | 62,163 | 8,532 | 70,695 |

The Airport also leases facilities and land with varying renewal privileges to various nonsignatory air carriers, concessionaires, and others. These leases, for periods ranging from 1 to 50 years, require the payment of minimum annual rentals. The following is a schedule by year of minimum future rentals on noncancellable operating leases, other than leases with signatory airlines, pursuant to long-term use agreements:

| | | |
|---|---|---|
| Year ending June 30: | | |
| 2005 | $ | 25,290 |
| 2006 | | 15,243 |
| 2007 | | 14,645 |
| 2008 | | 15,965 |
| 2009 | | 9,736 |
| 2010 – 2014 | | 21,845 |
| 2015 – 2019 | | 6,048 |
| 2020 – 2024 | | 3,562 |
| 2025 – 2029 | | 3,562 |
| 2030 – 2034 | | 3,562 |
| 2035 – 2039 | | 356 |
| Total minimum future rentals | $ | 119,814 |

The above amounts do not include contingent rentals that may be received under certain leases. Such contingent rentals amounted to $23,326 for the year ended June 30, 2004.

(dollars in thousands)

The Airport leases computer and other equipment and has service agreements under noncancelable arrangements that expire at various dates through 2008. Expenses for operating leases and service agreements were $1,620 for the year ended June 30, 2004. Future minimum payments (excluding payments for snow removal, which are not determinable) are as follows:

| | |
|---|---|
| Year ending June 30: | |
| 2005 | $ 146 |
| 2006 | 98 |
| 2007 | 48 |
| 2008 | 25 |
| Total minimum future rentals | $ 317 |

c. Component Unit—SLDC

In December 1996, SLDC, in conjunction with the Community Development Agency (CDA), signed a five-year lease for office space, which commenced March 1997 with three months abated rent and thereafter, monthly base payments of $38 through February 2002. In January 2001, SLDC signed an agreement to extend the lease for 15 years. The new agreement, which increased the base rent to $47 and the leased space to 6,216 square feet, will end February 2017. SLDC also has sublease agreements with the Planning and Urban Design Development Agency (PDA) and CDA in effect through February 2017. Future minimum base rents under the terms of the lease agreements, net of sublease rents anticipated from CDA and PDA, are as follows:

| | |
|---|---|
| Year ending June 30: | |
| 2005 | $ 239 |
| 2006 | 255 |
| 2007 | 255 |
| 2008 | 255 |
| 2009 | 255 |
| 2010 – 2014 | 1,397 |
| 2015 – 2017 | 803 |
| | $ 3,459 |

Rent expenditures, net of $333 in rents received, were $232 during the year ended June 30, 2004.

Additionally, at June 30, 2004, SLDC was committed for approximately nine years under an original 25-year operating lease with the City, which requires annual rental payments of $1 (in dollars) for certain property. Under the lease agreement, SLDC shall make improvements to the leased premises and award subleases for all or a portion of the leased premises.

(dollars in thousands)

## 21. INTERFUND BALANCES

Individual fund interfund receivable and payable balances as of June 30, 2004 are as follows:

| Receivable Fund | Payable Fund | Amount |
|---|---|---|
| General fund | Special revenue—grants fund | $ 7,933 |
| | Enterprise: | |
| | Airport | 1,596 |
| | Water Division | 886 |
| | Parking Division | 472 |
| | Internal service funds | 6,824 |
| | | 17,711 |
| Other governmental nonmajor funds | General fund | 553 |
| | Capital projects fund | 140 |
| | Special revenue—grants fund | 5,561 |
| | Other governmental nonmajor funds | 314 |
| | | 6,568 |
| Enterprise—Airport | General fund | 6 |
| Internal service funds | General fund | 304 |
| | Enterprise: | |
| | Airport | 1,563 |
| | Water Division | 1,850 |
| | Parking Division | 255 |
| | | 3,972 |
| | | $ 28,257 |

All of these interfund balances are due to either timing differences or to the elimination of negative cash balances within the various funds. All interfund balances are expected to be repaid during the fiscal year ending June 30, 2005.

(dollars in thousands)

22. INTERFUND TRANSFERS

Interfund transfers for the year ended June 30, 2004 consisted of the following:

| | | Transfer To | | | | |
|---|---|---|---|---|---|---|
| | | **General fund** | **Capital projects fund** | **Other Govern-mental Funds** | **Parking Division** | **Total** |
| **Transfer From** | General fund | $ – | – | 1,419 | – | 1,419 |
| | Capital projects fund | 8,616 | – | 641 | – | 9,257 |
| | Grants fund | 20 | – | – | – | 20 |
| | Other govern-mental funds | 7,889 | 10,634 | 704 | 714 | 19,941 |
| | Airport | 5,434 | – | – | – | 5,434 |
| | Water Division | 2,349 | – | – | – | 2,349 |
| | Parking Division | 150 | – | – | – | 150 |
| | | $ 24,458 | 10,634 | 2,764 | 714 | 38,570 |

Interfund transfers were used to (1) move revenues from the fund that ordinance or budget requires to collect them to the fund that ordinance or budget requires to expend them, (2) use unrestricted revenues collected in the general fund to finance capital improvements and other funds in accordance with budgetary authorization, or (3) move revenues in excess of current year expenditures to other funds. Additionally, gross receipt payments from the Airport, the Water Division, and the Parking Division are handled as transfers from each respective enterprise fund to the general fund.

23. COMMITMENTS AND CONTINGENCIES

a. Grants

In connection with various federal, state, and local grant programs, the City is obligated to administer related programs and spend the grant monies in accordance with regulatory restrictions, and is subject to audit by the grantor agencies. In cases of noncompliance, the agencies involved may require the City to refund program monies. Through June 30, 2004, claims have been made on the City to make refunds under certain programs and other programs are still open as to compliance determination by the respective agencies. In the opinion of City officials, settlement of these matters will not result in a material liability to the City.

b. Landfill Closure

Pursuant to an agreement between the Missouri Department of Natural Resources (MDNR) and the City, the City will be closing the Hall Street Landfill. The property was a 47-acre demolition waste landfill located at 8700 Hall Street. The property is owned by SLDC. The City holds the operating permit and is responsible for the closing. In July 2001, the City entered into an irrevocable standby letter of credit in the amount of $4,174 with MDNR as the beneficiary. MDNR may draw upon that letter of credit to complete the closure if the City does not fulfill its obligations under the agreement. As of June 30, 2004, no amounts had been drawn against the letter of credit by MDNR. At June 30, 2004, $234 has been recorded as a liability, which is an estimate of expenses the City will incur for closure and postclosure costs.

c. Commitments

At June 30, 2004, the City had outstanding commitments amounting to approximately $25,036, resulting primarily from service agreements.

Additionally, at June 30, 2004, the Airport had outstanding commitments amounting to approximately $138,059, resulting primarily from contracts for construction projects both related and unrelated to the W-1W expansion project.

d. American Airlines, Inc.

American Airlines, Inc. (American) represents the major air carrier providing air passenger service at the Airport. American provided 36% of the Airport's total operating revenues and 49% of total revenues from signatory air carriers for the fiscal year ended June 30, 2004. Airport accounts receivable at June 30, 2004 contained $5,827 relating to amounts owed to the Airport by American. This amount includes $5,721 of unbilled aviation revenues at June 30, 2004.

1) Decision by American to Reduce Operations at the Airport

On November 1, 2003, American's activities at the Airport were reduced as follows:

- The number of daily flights offered by American were reduced from 417 to 213.
- American discontinued nonstop flights to 25 cities.
- American reduced the number of gates that it operates at the Airport.

In order to address the significant decrease in aviation activity caused by American's decision, Airport management has developed a plan comprised of the following action steps:

Action steps for the current operations include the following:

- Effective November 1, 2003, the Airport has increased the airfield-landing rate from $2.45 to $3.40 (in dollars) per thousand pounds of landed weight. Effective July 1, 2004, the Airport increased the airfield landing rate again from $3.40 to $4.07 per thousand pounds of landed weight.
- The Airport reviewed its fiscal year 2004 operations and maintenance budget and identified annual reductions totaling $7,000, consisting of eliminating 105 personnel positions ($5,000) and reductions of various nonpersonnel expenses ($2,000).
- The Airport reevaluated its five-year capital improvement program and deferred $90,000 of improvements originally scheduled to be made in fiscal year 2004.
- The Airport developed a marketing campaign to aggressively pursue new service from existing or new airlines. As of August 2004, the Airport has successfully secured 55 additional flights from both existing and new carriers, and obtained nine flight upgrades.

Action steps for Phase I of the Airport development program include:

- The Airport reevaluated its Phase I of the Airport development program, which resulted in the deferral of approximately $85,000 in expenses.
- The Airport secured increased funding totaling $85,000 with the Federal Aviation Administration in the Airport's current Letter of Intent (LOI) funding. The increased funding is comprised of $50,000 for construction, $20,000 for noise abatement, and $10,000 advanced LOI funding.

No assurance can be given as to the levels of aviation activity that will be achieved at the Airport in future fiscal years. Future traffic at the Airport is sensitive to a variety of factors including: (1) the growth in the population and the economy of the area served by the Airport; (2) national and international political and economic conditions, including the effects of the terrorist attacks of September 11, 2001, or any future attacks; (3) air carrier economics and air fares; (4) the availability and price of aviation fuel; (5) air carrier service and route networks; (6) the capacity of the air traffic control system; and (7) the capacity of the Airport/airways system.

The level of aviation activity at the Airport can have a material impact on the amount of total revenues generated at the Airport. However, Airport management believes the decline in Airport revenues is mitigated by the Airport use agreement which expires December 31, 2005, concession agreements, and other leases, which contain minimum annual revenue guarantees.

<u>Use Agreement with American</u>

In 1993, the City purchased from Trans World Airlines, Inc. (TWA) all of TWA's leasehold interests relating to the use of certain gates, terminal support facilities, air cargo facilities, and improvements at the Airport, together with related personal property and leasehold interest in a hangar, office building, and a flight training facility (Purchased Assets). TWA had a month-to-month lease covering the Purchased Assets with automatic renewals through December 31, 2005. In conjunction with the sale of TWA's assets to American on April 9, 2001, American assumed TWA's obligations under the lease agreement.

Under the lease agreement, if during any month American has an average of less than 190 regularly scheduled departures, the City has a right to reclaim and redesignate the use of the gates and terminal support facilities and equipment to other airlines so that American would retain only the number of gates that represents an average of 3.33 daily flight departures per gate. Also, under the lease agreement, if American fails to make a payment of any rents, fees, or charges, the City may terminate all of American's airport agreements and retain ownership of all assets acquired under the purchase transaction.

Lease revenue under the agreement was $7,773 for the year ended June 30, 2004.

e. Airport Expansion

On September 30, 1998, the City received a favorable Record of Decision from the Federal Aviation Administration (FAA) for the W-1W expansion of the Airport, marking the beginning of a new economic era for aviation in St. Louis. The proposed $2.6 billion program will provide the building blocks for a highly competitive "world class" aviation system for the 21st century, including one additional 9,000 foot parallel runway to add capacity in all weather conditions, and renovation of the Airport's existing runway and taxiway system.

The construction for this program will be funded with Airport development funds, passenger facilities charges, FAA improvement program grants, and Airport revenue bonds. During fiscal year 2001, the Series 2000 Letter of Intent Double Barrel Revenue Bonds and the Series 2001A Airport Revenue Bonds were issued as part of the overall funding plan for this program. During fiscal year 2003, the Series 2002 Airport Revenue Bonds and Series 2003A Airport Revenue Refunding Bonds were issued to refinance the Series 2000 Letter of Intent Double Barrel Revenue Bonds and to provide additional financing for the project.

Lawsuits previously filed by the cities of St. Charles and Bridgeton, Missouri challenging the project have been adjudicated and fully reviewed by the appellate courts. In both cases, final judgments were rendered in favor of the City and the Airport.

Land acquisition activities relative to the expansion project are underway with approximately 1,937 parcels to be acquired. As of August 2, 2004, 1,559 offers have been extended; of these, 1,538 offers have been accepted; of these, 1,514 real estate transactions have been closed; of these, 1,477 properties have been vacated by the sellers and are in the possession of the Airport; and of these, 1,405 homes have been demolished.

Additionally, the Airport has entered into various construction contracts related to the expansion project.

f. Water Main Break

The City received a judgment during fiscal year 2002 from the Twenty-Second Judicial Circuit Court relating to damage caused to a private institution by a main break on a private fire line. This judgment was appealed. In September 2003, the Missouri Court of Appeals transferred the case to the Missouri Supreme Court. On October 12, 2004, the Missouri Supreme Court ruled on the case and reversed the judgment against the City.

Upon receipt of the original judgment in 2002, the City had determined that $6,372, consisting of damages and post-judgment interest, was a probable loss for the City. Of this amount, the City determined that $3,400 would be funded by the Water Division, and remaining $2,972 would be funded by the General fund of the City. However, pursuant to the Missouri Supreme Court's ruling in favor of the City in 2004, the City has concluded that this amount is no longer a probable loss for the City. Accordingly, the $6,372 liability has been removed for the year ended June 30, 2004, and a recovery of legal judgment of $6,372 has been recorded as a special item on the statement of activities.

g. Asbestos Removal

The Water Division has identified certain of its structures as having asbestos in place. As part of its continuing process of upgrading facilities, the costs for removal of the asbestos material and restoration or replacement of the affected areas are being included in budgets for capital projects. No mandatory time requirement is in effect. The removal plan would be accelerated by changes in plans for remodeling, if any.

h. Component Unit—SLDC

In the normal course of its operations, certain lawsuits and legal action are pending against SLDC. In the opinion of SLDC officials and legal counsel, these items are not expected to have a material effect, individually or in the aggregate, upon the financial position or the results of operations of SLDC.

In addition, certain properties held for development may be subject to future environmental remediation costs. In the opinion of SLDC officials, these costs would not have a material adverse effect upon the financial position or the results of operations of SLDC.

SLDC has entered into various cooperative agreements with the Community Development Agency of the City as a subrecipient/administrator of the Community Development Block Grant programs.

i. Component Units—SLDC and SLPD

SLDC and SLPD receive financial assistance from several federal, state and local government agencies in the form of grants and contracts. The disbursements of funds received under these programs generally requires compliance with terms and conditions specified in the contract and grant agreements and is subject to audit by the granting agencies. Any disallowed claims resulting from such audits could become an SLDC or SLPD liability. However, in the opinion of their respective management, any such disallowed claims will not have a material effect on the financial statements of SLDC or SLPD at June 30, 2004.

24. RISK MANAGEMENT

a. Primary Government

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The City is self-insured with respect to its obligation to provide workers' compensation, general liability, unemployment benefits, and healthcare (including prescription drug coverage). Effective February 1, 2003, the City became self-insured for property damage caused by garbage and refuse trucks. The City has sovereign tort immunity from liability and suit for compensatory damages for negligent acts or omissions, except in the case of injuries arising out of the operation of City motor vehicles or caused by the condition of City property. The maximum claim settlement established by state statute for such claims is $300 per person and $2,000 per occurrence. Various claims and legal actions involving the City are presently pending. Additionally, a number of legal suits against SLPD are presently pending for alleged wrongful personal injuries, civil rights violations, and negligence in the line of duty. The City's policy is to record these claims in its government-wide financial statements when it is probable that a liability has been incurred and the amount can be reasonably estimated.

For workers' compensation and general liability, the estimated liability for payment of incurred (both reported and unreported) but unpaid claims and claim adjustment expenditures of $14,392 at June 30, 2004, relating to these matters is recorded in the self insurance internal service fund—PFPC. The City obtains periodic funding valuations from a claims-servicing company managing the appropriate level of estimated claims liability. Enterprise funds reimburse PFPC on a cost-reimbursement basis.

The City was also self-insured for healthcare coverage for its employees and retirees through June 12, 2004 and June 30, 2004, respectively. The City was self-insured for healthcare coverage for employees of HSTRC and Tower Grove Park through June 30, 2004. Effective June 13, 2004 for employees of the City and July 1, 2004 for retirees and employees of HSTRC and Tower Grove Park, the City elected to purchase commercial insurance for its previously self-insured health insurance program. The City remains self-insured for the prescription drug coverage provided to employees and retirees. Additionally, the City is still self-insured for any healthcare claims that arise from incidents occurring prior to June 13, 2004 for employees and July 1, 2004 for retirees and employees of HSTRC and Tower Grove Park.

For the period the City was self-insured for healthcare coverage, it paid the cost of the lowest available coverage for all City employees. Employees were required to pay, through bi-weekly payroll deductions, for a higher level of care, if desired, or for coverage of a spouse and/or dependents. Retirees and employees of HSTRC and Tower Grove Park had to contribute a monthly amount to cover the cost of their healthcare if participating in the plan. During the self-insured period, all funding levels were actuarially determined at the start of the plan and reevaluated at the beginning of each fiscal year.

For healthcare coverage, the estimated liability for payment of incurred but unpaid claims and claim adjustment expenditures of $1,321 at June 30, 2004 relating to such matters is recorded in the self-insurance internal service fund—health.

The City maintains surety bonds on various employees that handle cash. In addition, the City purchases commercial insurance for other risks, including property damage and liability coverage applicable to the Airport and Cervantes Convention Center. There were no significant changes in coverage for the year ended June 30, 2004 and, for the years ended June 30, 2004, 2003, and 2002, settlements did not exceed coverage.

(dollars in thousands)

Changes in the self-insurance claims liability for the years ended June 30, 2004 and 2003 are as follows:

| | Beginning balance | Current year claims and changes In estimates | Claim payments | Ending balance |
|---|---|---|---|---|
| 2004 | $ 24,856 | 27,913 | (37,056) | 15,713 |
| 2003 | 17,921 | 38,847 | (31,912) | 24,856 |

Additionally, there is a range of general liability claims outstanding, from $4,988 to $7,373, which the City Counselor's office has determined there is a reasonable possibility that a loss contingency may be incurred but no accrual has been made within the government-wide financial statements or fund financial statements because the loss is not *both* probable and estimateable.

b. Component Unit—SLPD

SLPD has established a risk management program and retains the risk related to workers' compensation. At June 30, 2004, these liabilities amounted to $39,211 for workers' compensation. Of SLPD's total worker's compensation liability, $29,910 has been accrued for benefits to be paid for long-term medical care for two officers seriously injured in the line of duty. Benefit payments for these two cases amounted to approximately $1,108 for the year ended June 30, 2004.

Changes in the balances of workers' compensation claims liabilities for the years ended June 30, 2004 and 2003 are as follows:

| | Beginning balance | Current year claims and changes In estimates | Claim payments | Ending balance |
|---|---|---|---|---|
| 2004 | $ 24,778 | 19,849 | (5,416) | 39,211 |
| 2003 | 21,731 | 7,387 | (4,340) | 24,778 |

25. GRANT LOAN PROGRAMS

The City's general fund and grants fund include the activities of the CDA that, among other activities, makes loans to developers under the Housing Implementation Program. This program, which is administered for the City by certain financial institutions, provides funds to rehabilitate housing units for low and moderate-income families. These loans typically are noninterest-bearing, due in 25 years, and secured by a second deed of trust. CDA also made loans under the Urban Development Action Grant (UDAG) program to assist organizations with development projects within the City. These loans typically have a lower-than-market interest rate and payback periods ranging from 10 to 40 years after completion of the projects.

Any funds received from the repayments of these loans are to be spent by the City in accordance with Community Development Block Grant program regulations. Since repayment of the loans is dependent on the success of projects that involve considerable risk, collectibility is not assured and, accordingly, the City reflects these loans as an expenditure of the grants fund in the year the loans are made. Any loan repayments are reflected as intergovernmental revenue (or deferred revenue if monies have not been spent) in the year of receipt.

26. COMPONENT UNIT—SLDC CONDUIT DEBT

SLDC facilitates the issuance of tax-exempt bonds for various private enterprises and government agencies. After the bonds are sold, the proceeds are typically used to purchase real estate or fund capital improvements for the respective organization. These organizations enter into lease agreements with SLDC that are, in substance, sales of the related properties or improvements. SLDC assigns these leases to various trusts that collect the lease payments to satisfy the debt service requirements. After SLDC assigns the leases to the trusts, the properties are no longer under their control and they have no liability for the bonds. Therefore, transactions related to the leases and the bond liability are not presented in SLDC's financial statements. The amount of tax-exempt bonds outstanding at June 30, 2004 could not be determined; however, the original issue amounts totaled approximately $1.8 billion (in dollars).

27. SUBSEQUENT EVENTS

a. Tax and Revenue Anticipation Notes

The City issues tax and revenue anticipation notes in advance of property tax collections, depositing the proceeds in its general fund. In July 2004, the City issued $47,000 in Tax and Revenue Anticipation Notes payable from the general fund. The notes mature on June 28, 2005 and bear interest at a rate of 3.00% per year.

b. Agreement with Metro

During July 2004, the City entered into an agreement with the Bi-State Development Agency of the Missouri-Illinois Metropolitan District doing business as Metro. The agreement provided for Metro to advance the City $1,000, interest free, for the replacement of the Lansdowne Bridge over River Des Peres. The City agrees to repay Metro on December 31, 2006 by appropriating funds in fiscal years 2005 and 2006.

c. Capital Lease – Rolling Stock

In July 2004, the City amended its lease agreement with Banc One Leasing Corporation, dated February 3, 2000, to include additional lease funding of $851 at an annual interest rate of 3.19%. These proceeds were deposited with an escrow agent and will be used to pay the purchase price of equipment. All equipment will be purchased, delivered, and installed no later than January 21, 2006.

d. Tax Increment Financing Notes Payable

On October 17, 2004, the City issued a Taxable Tax Increment Revenue Note (Soulard Market TIF RPAJ Project) Series 2004 in the amount of $2,761, which is due in semi-annual installments through July 11, 2026 and bears interest at a rate of 7%.

Additionally, in September 2004, a financial institution advanced $2,400 to the developer of the 920 Olive/1000 Locust Tax Redevelopment District in anticipation of the City's issuance of $2,400 in tax increment financing notes payable to the financial institution.

e. Termination of Lease and Redemption of SLPCFC Tax Exempt Parking Revenue Bonds Series 2003A

On December 23, 2004, the lease between SLPCFC and the lessor was partially terminated relative to a surface lot near the Cupples Garage. Due to the termination of the lease, the lot was sold and transferred to a developer. Additionally, the proceeds of the sale were used to pay a mutually agreed-upon lease termination fee of $422 to the financial institution that had purchased the SLPCFC Tax-Exempt Parking Revenue Bonds Series 2003A. The fee will be utilized to redeem $420 of principal of the bonds maturing on June 1, 2028 plus accrued interest. These bonds will be called for redemption on February 1, 2005.

f. Sale of HSTRC Property

On July 23, 2004, the City entered into a sales contract with a developer for the HSTRC property. This sales contract included the sale of the land, building, bed licenses and contents of the building, which formerly operated as the HSTRC. On October 22, 2004, the City and the developer closed on the sales contract. The City received $1,200 for the land and the building while the HSTRC received $260 for the bed licenses and the remaining contents of the building.

g. Issuance of SLMFC Forest Park Leasehold Revenue Bonds Series 2004

On December 15, 2004, the SLMFC issued Forest Park Leasehold Revenue Refunding Bonds Series 2004 in the amount of $16,400. The proceeds of the bonds were used to refund all of the outstanding $16,120 Series 1997 Forest Park Leasehold Revenue Improvement Bonds. The Series 2004 bonds are due in installments through February 15, 2022 and bear interest at rate of 3% to 5%.

h. Airport Commercial Paper

On August 17, 2004, the Airport issued $1,000 in Series 2004A Commercial Paper Notes, due September 1, 2004, at an annual interest rate of 1.25% for the purpose of financing the cost of extension, improvement, purchase, acquisition, construction or enlargement of facilities, appurtenances and equipment at the Airport.

## 28. FUTURE ACCOUNTING PRONOUNCEMENTS

GASB Statement No. 40, *Deposit and Investment Risk Disclosures – an Amendment of GASB Statement No. 3*, modifies existing, and imposes new, disclosure requirements relative to the City's cash and investments. This statement will be effective for the City for the fiscal year ending June 30, 2005. Management of the City has not yet completed its assessment of the statement.

GASB Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*, defines the appropriate accounting treatment for capital asset impairments and related insurance recoveries. This statement will be effective for the City for the fiscal year ending June 30, 2006. Management of the City has not yet completed its assessment of the statement.